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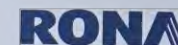
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# BUILDING

2003 Annual Report

# A national network of stores of all sizes



## RONA stores in Canada

528 points of sale in nine provinces from coast to coast

22

### BRITISH COLUMBIA

RONA Home Centre 18  
RONA Building Centre 1

21

### PRAIRIE PROVINCES (Alberta, Saskatchewan, Manitoba)

RONA Home Centre 8  
RONA Home & Garden 8  
RONA Building Centre 5

122

### ONTARIO

BOTANIX 16  
RONA Building Centre 6  
RONA Cashway 57  
RONA Hardware 9  
RONA Home Centre 9  
RONA Home & Garden 15  
RONA Lansing 8  
RONA L'express 1  
RONA Le Rénovateur 1

353

### QUEBEC

BOTANIX 48  
Reno-Dépôt 14  
RONA L'entrepôt 11  
RONA L'express 98  
RONA L'express Matériaux 42  
RONA Le Quincaillier 39  
RONA Le Régional 12  
RONA Le Rénovateur 89

10

### ATLANTIC PROVINCES (New Brunswick, Nova Scotia, Newfoundland, St-Pierre-et- Miquelon, France)

BOTANIX 1  
RONA Home Centre 1  
RONA L'express 5  
RONA Le Quincaillier 1  
RONA Le Rénovateur 2

More than 83% of the population lives less than 30 minutes away from a RONA store.

RONA: The Canadian leader in hardware-renovation

## Big-box stores

These warehouse-type home centres offer an unequalled variety of products at the lowest prices. You can find everything under the same roof: hardware, tools, building materials, paint, gardening, decoration and seasonal items. With between 60,000 and 165,000 square feet, these stores feature plenty of elbow room and offer personalized customer service.



## Traditional stores

These are RONA's hardware stores and renovation centres. The hardware stores are small and mid-sized outlets that meet customer needs for hardware, seasonal products and paint. For their part, the renovation centres are recognized as specialists in construction materials and paint, offering a wide range of seasonal products and a complete assortment of other renovation and hardware items.



## Specialized stores

Designed to meet the needs of housing professionals including building and renovation contractors, gardeners and expert do-it-yourselfers, these stores offer product selection and services that meet the daily needs of this group.



## 6 distribution centres

Surrey, British Columbia F1	85 000 sq. ft.
Calgary, Alberta F2	320 000 sq. ft.
Halton Hills, Ontario H7	90 000 sq. ft.
Etobicoke, Ontario H7	130 000 sq. ft.
Dorval, Quebec G7	40 000 sq. ft.
Boucherville, Quebec G7	650 000 sq. ft.

## 12 new points of sale in 2003

Edmonton, Alberta E2  
Hanover, Ontario H6  
Spanish, Ontario H6  
Saint-Thomas, Ontario H6  
Moorefield, Ontario H7  
Wasaga Beach, Ontario H7  
Kingston, Ontario H7  
Val-d'Or, Quebec G7  
Mirabel, Quebec G7  
Boucherville, Quebec G7  
Magog, Quebec H8  
Sept-Îles, Quebec F8

## 8 stores under construction in 2003-2004

Richmond, British Columbia F1  
Calgary, Alberta F2  
Fort Mc Murray, Alberta E3  
Regina, Saskatchewan G3  
Prince Albert, Saskatchewan F3  
Kitchener-Waterloo, Ontario H7  
Barrie, Ontario H7  
Peterborough, Ontario H7

- RONA distribution centres
- New points of sale in 2003
- Stores under construction in 2003-2004







## RONA's Business Model

RONA offers Canadian consumers a national network of stores of varied formats, differentiated by their respective banners. RONA bases its growth strategy on the conviction that consumers have varied needs and that no retail sales format can satisfy them all.

# Highlights of the year

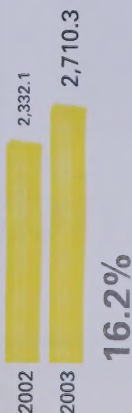
For RONA, 2003 was a linchpin year in which it completed the largest transaction in its 65-year history: the acquisition of the Réno-Dépôt network. The Company also posted net earnings of \$77.9 million, an increase of 80.8% over last year.

## Among the year's highlights:

<b>February 20, 2003</b>	RONA launches the RONA Building Centre banner, a specialized store concept for building contractors and do-it-yourselfers.
<b>April 23, 2003</b>	RONA announces the acquisition of the 20-store Réno-Dépôt/The Building Box network.
<b>March 13, 2003</b>	RONA launches the first ever national advertising campaign in its history.
<b>June 3, 2003</b>	RONA closes a treasury offering totalling \$149,669,625.
<b>June 12, 2003</b>	RONA begins construction of a new 320,000 sq. ft. distribution centre in Calgary, Alberta.
<b>September 10, 2003</b>	RONA completes the acquisition of the Réno-Dépôt network after receiving approval from the Competition Bureau.
<b>November 5, 2003</b>	RONA inaugurates a new 120,000 sq. ft. RONA Home & Garden in Kingston, Ontario.
<b>December 19, 2003</b>	The "RON" ticker is listed on the S&P/TSX Composite Index.
<b>January 19, 2004</b>	RONA recruits its first two affiliated stores in Western Canada.
<b>February 12, 2004</b>	RONA opens a 140,000 sq. ft. RONA Home & Garden in Edmonton, Alberta.
<b>March 16, 2004</b>	RONA officially launches its new 35,000 sq. ft. neighbourhood store concept RONA Le Rénovateur / RONA Home Centre.

### Net sales

(in millions of dollars)



### EBITDA

(in millions of dollars)



### Net earnings

(in millions of dollars)

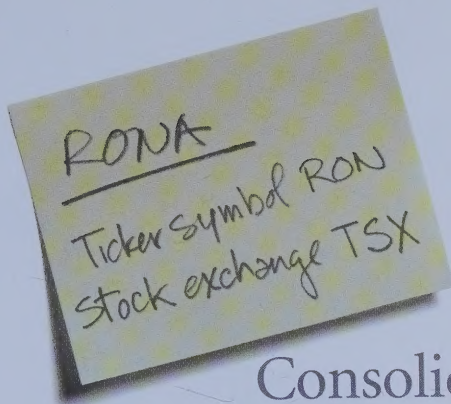


### Diluted earnings per share

(in dollars)





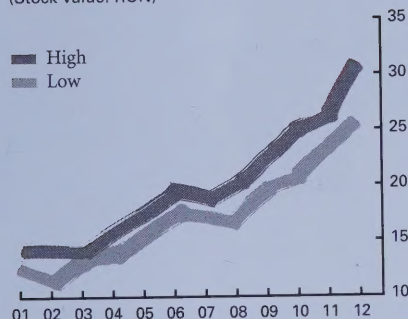


## Consolidated Financial Highlights

Years ended December 28, 2003, December 29, 2002 and December 31, 2001  
(in thousands of dollars, except for earnings per share)

### Stock Information Year 2003

(Stock value: RON)



	2003	2002	2001
<b>Operations</b>			
Net sales	\$ 2,710,268	\$ 2,332,119	\$ 1,834,544
Operating income (EBITDA)	175,063	128,784	90,528
Net earnings	77,947	43,114	24,633
Earnings per share	\$ 1.47	\$ 1.12	\$ 0.74
Diluted earnings per share	\$ 1.44	\$ 1.08	\$ 0.71
<b>Shareholders' equity</b>	<b>610,283</b>	385,702	211,820
<b>Common shares</b>			
Outstanding	<b>56,807,065</b>	47,621,944	36,873,652

### RONA's market share in Canada



### Canadian hardware-renovation market\* (market share)

Some 5,000  
independent  
stores

**47%**



Three  
major  
retailers  
**39%**

RONA  
**14%**

\* RONA's retail sales totalled \$3.9 billion in 2003 in a total market estimated at \$28 billion.



## Building on a **solid** foundation

**Robert Dutton**  
President and Chief Executive Officer

RONA has been growing at a brisk pace since 1999, posting average annual increases of over 28% in net sales; more than 47% in operating income; over 53% in net earnings; and more than 34% in earnings per share.

Not surprisingly, the financial markets have been quite impressed with these figures, as shown by the performance of RONA's stock, which appreciated more than 120% in 16 months, from November 2002 when it was first listed to March 2004.

Although RONA has indeed enjoyed profitable, rapid growth, it is important to remember that a critical element of the Company's success has been its solid business model.

In fact, solidity is the cornerstone of both RONA's business model and its culture. For us, a company's expansion is somewhat like adding an extension to a house: it must stand the test of time. And a solid foundation and structure are what is needed to support any expansion.

**Our accelerated development of the past four years is the most remarkable part of a growth spurt that began 10 years ago. In fact, our earnings per share have been growing at an average annual rate of 24.1% since 1993.**

Many years of solid organic growth set the stage for our expansion phase that began in 2000 with the acquisition of the Cashway chain in Ontario. As for the actions we have taken during the past four years, our goal was much more than just growth. It was to build an even stronger foundation to support our future growth because we want to see RONA continue growing briskly and profitably. We believe the North American market, and especially the Canadian market, can support this ambition.



ket

operating in a market that is  
remain, for the foreseeable  
source of organic and  
growth opportunities.

The inevitable economic cycles, socio-demographic  
change of residential housing are structural trends  
in favour of our organic growth by fuelling the  
renovation, do-it-yourself and gardening sector.  
55% of dwellings in Canada are more than 20 years  
old, requiring renovation or major maintenance in the coming  
years. A large demographic cohort is approaching a turning  
point in their peak in terms of income and net assets, baby  
boomers, who will be empty nesters and adapting their homes to  
the future. Moreover, in today's world where manual labour is  
not a thing of the past, people are turning to gardening  
and home improvement projects to derive the psychological benefit of  
their own hands. In light of the foregoing, our market is  
continuing to grow at a brisk pace.

With growth, Canada continues to offer interesting  
opportunities with merely a 14% share of the Canadian market,  
a clear leader. And since approximately 50% is still held  
by independent, small and mid-sized companies, consoli-  
dation is ongoing. RONA's business model is ideally suited to this  
because it ensures that the impending consolidation  
will be to the benefit of consumers, independent merchants and  
the company. In fact, due to its multi-banner and multi-format  
ownership formulas and unmatched distribution  
network, RONA has the unique ability to integrate  
independent merchants into its retail network.  
Like the best.

### A robust business model

Long viewed with skepticism, RONA's decision to maintain a  
coherent network of neighbourhood, specialized and big-box  
stores is now supported by most observers. The same goes for our  
decision to keep three types of properties: stores wholly owned  
by the Company, franchised stores and affiliated stores.

Besides store growth, our expansion is carried out in various ways:

- By building new stores; RONA opened two new points of sale  
in 2003 and plans to open about another 10 by the end of 2005,  
mainly in Ontario and Western Canada;
- By acquiring stores or store chains; the Réno-Dépôt acquisition  
in 2003 added 20 stores and more than 2 million square feet in  
the Quebec-Windsor corridor, the most populated region and  
richest market in Canada. RONA continues to look for acquisition  
opportunities that meet its highly selective criteria;
- Through expansions, renovations or acquisitions by our affiliates;  
in 2003, a number of RONA's affiliated merchants financed their  
expansion by selling some of their RONA shares at a profit;
- By attracting new affiliates; in 2003 and in the first few months  
of 2004, RONA recruited 14 new merchants in Quebec, Ontario,  
Manitoba and Alberta. Having reached the critical threshold in  
Ontario and in the West in terms of visibility and logistical efficiency,  
RONA will now intensify its recruitment efforts outside Quebec.

**Made possible by our multi-format  
and multiple ownership formula  
strategy, our diverse growth sources  
are precisely what makes RONA's  
business model so robust.**



www.rona.ca

**RONA**

# Building on a **solid** foundation

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President and Chief Executive Officer

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Although RONA has indeed enjoyed profitable, rapid growth, it is important to remember that a critical element of the Company's success has been its solid business model.

In fact, solidity is the cornerstone of both RONA's business model and its culture. For us, a company's expansion is somewhat like adding an extension to a house: it must stand the test of time. And a solid foundation and structure are what is needed to support any expansion.

**Our accelerated development of the years is the most remarkable part of the spurt that began 10 years ago. In fact, earnings per share have been growing at an average annual rate of 24.1% since**

Many years of solid organic growth set the stage for the phase that began in 2000 with the acquisition of the chain in Ontario. As for the actions we have taken over the last four years, our goal was much more than just growth; we wanted to build an even stronger foundation to support our ambition because we want to see RONA continue growing profitably. We believe the North American market, and the Canadian market, can support this ambition.



### **A promising market**

**We are operating in a market that is and will remain, for the foreseeable future, a source of organic and external growth opportunities.**

Notwithstanding the inevitable economic cycles, socio-demographic changes and the age of residential housing are structural trends that are playing in favour of our organic growth by fuelling the development of the renovation, do-it-yourself and gardening sector. For example, over 65% of dwellings in Canada are more than 20 years old and will require renovation or major maintenance in the coming years. As well, a large demographic cohort is approaching a turning point. Reaching their peak in terms of income and net assets, baby boomers will soon be empty nesters and adapting their homes to this new reality. Moreover, in today's world where manual labour is quickly becoming a thing of the past, people are turning to gardening and do-it-yourself projects to derive the psychological benefit of working with their hands. In light of the foregoing, our market is expected to continue growing at a brisk pace.

As for external growth, Canada continues to offer interesting opportunities. With merely a 14% share of the Canadian market, RONA is already a leader. And since approximately 50% is still held by some 5,000 independent, small and mid-sized companies, consolidation is inevitable. RONA's business model is ideally suited to this type of context because it ensures that the impending consolidation will be to the benefit of consumers, independent merchants and RONA shareholders. In fact, due to its multi-banner and multi-format strategy, various ownership formulas and unmatched distribution network in Canada, RONA has the unique ability to integrate the top stores and independent merchants into its retail network. And it will only take the best.

### **A robust business model**

Long viewed with skepticism, RONA's decision to maintain a coherent network of neighbourhood, specialized and big-box stores is now supported by most observers. The same goes for our decision to keep three types of properties: stores wholly owned by the Company, franchised stores and affiliated stores.

Besides store growth, our expansion is carried out in various ways:

- By building new stores; RONA opened two new points of sale in 2003 and plans to open about another 10 by the end of 2005, mainly in Ontario and Western Canada;
- By acquiring stores or store chains; the Réno-Dépôt acquisition in 2003 added 20 stores and more than 2 million square feet in the Quebec-Windsor corridor, the most populated region and richest market in Canada. RONA continues to look for acquisition opportunities that meet its highly selective criteria;
- Through expansions, renovations or acquisitions by our affiliates; in 2003, a number of RONA's affiliated merchants financed their expansion by selling some of their RONA shares at a profit;
- By attracting new affiliates; in 2003 and in the first few months of 2004, RONA recruited 14 new merchants in Quebec, Ontario, Manitoba and Alberta. Having reached the critical threshold in Ontario and in the West in terms of visibility and logistical efficiency, RONA will now intensify its recruitment efforts outside Quebec.

**Made possible by our multi-format and multiple ownership formula strategy, our diverse growth sources are precisely what makes RONA's business model so robust.**



**André H. Gagnon**

Chairman of the Board of Directors

### **Flawless execution**

Thanks to its business model and healthy balance sheet, RONA has the solid foundation on which to base its future growth and profitability. But that's not enough. Consumers must find the products, service and atmosphere they are looking for in our stores—or else they will simply go elsewhere.

This is why RONA is obsessed with details. After all, the retail business is about details. Whether it involves helping a consumer find the right product for a family room renovation or a leaky faucet; merchandising a 5,000 or 150,000 sq. ft. store; shipping tens of thousands of items every day to a network of 528 stores from coast to coast; or negotiating and integrating an acquisition, no business model will produce the desired results unless it is executed with the utmost rigour.

### **RONA puts this rigour into practice**

We therefore approach each acquisition with prudence and complete it with care, from the start of negotiations all the way to integration. We estimate that since 2000, we have created synergies of some \$45 million with the integration of Cashway, Revy, Lansing and Réno-Dépôt, acquired at a total cost of \$628 million.

We have built a most efficient distribution system, investing systematically in our physical distribution facilities and financial and material management information systems in order to cost-effectively maximize the reliability and flexibility of our logistics. To this end, we have invested some \$112.6 million over the past five years in distribution.

Regardless of their format and ownership formula, all our stores must be on the cutting edge. Our concepts therefore change constantly, and each new big-box store takes advantage of the most recent lessons learned in the network. We have developed and continue to hone the medium-size store format that offers the advantages of a big-box to smaller urban markets. And in 2003, we began rethinking the neighbourhood store. Against this backdrop, our development plan calls for the renovation of about 20% of our stores each year.



### **Our success – the work of 20,000 people**

There is no secret to our success; neither do we owe it to one or two universal factors. It is the outcome of a clear vision, focused on listening to the customer, simultaneously leveraging several complementary growth sources and ensuring disciplined execution that pays attention to the smallest detail. **Our success depends on it.**

Our accomplishments are the outcome of the work of some 20,000 employees who, day in and day out, work at RONA, its distribution centres and stores. We are all the more indebted to them since our recent expansion phase has required them to continuously adapt to a changing context. On behalf of RONA's management, board of directors, customers and shareholders, we would like to thank them.

And lastly, we wish to express our appreciation to the members of our Board of Directors.



**Robert Dutton**  
President and Chief Executive Officer



**André H. Gagnon**  
Chairman of the Board of Directors

## Research and Development at RONA

**RONA's product is its stores. While other companies rely on R&D to improve and perfect their products, RONA systematically conducts research and development with a view to always improving its stores, merchandising and consumer offering.**

Surveying customers and non-customers is the cornerstone of RONA's R&D efforts. Thanks to an increasingly refined understanding of consumer expectations, RONA is constantly adapting its merchandising strategy. As such, RONA and its brands, the role and positioning of each banner, and the number and selection of products offered by each banner and in the entire network are all carefully examined.

# Our vital energy

The success of the RONA network is fuelled every day by the commitment of the 20,000 people working in its stores, administrative offices and distribution centres.

RONA makes sure it can rely on a pool of competent, experienced and well-trained people imbued with the RONA culture and motivated to see the Company succeed. Through its communications and the implementation of HR management policies, RONA also makes sure it offers its employees a work environment that allows them to develop and reach their full potential.

#### AGP program goes national

In spring 2003, RONA rolled out a new version of its training and recognition program across the country, referred to as AGP for short (Acknowledge customers, Guide them, and Provide solutions).

First introduced in 2001 in Quebec big-box stores and now available to all RONA corporate and franchised stores, the AGP program is a combination of the best practices of the three customer service programs developed by the chains acquired by RONA over the past four years.

This new service standard at RONA seeks to improve consumer satisfaction, which will in turn increase their loyalty and prompt them to spend more, thereby strengthening the financial stability of RONA stores and the network.



**Jean Émond**  
Senior Vice-President  
People and Culture

#### Continuous training: a priority

In 2003, RONA began developing a master training plan that will incorporate into its overall strategy the best practices observed in the Company's various components.

Moreover, in 2003 the Company launched its own computer-assisted training program in its big-box stores and some traditional and specialized stores to increase employee knowledge of products in many segments of the housing sector. Using video clips and interactive questionnaires, the program is offered in a modular format (30 minutes) adapted to the operating constraints of the stores.

When RONA acquired Réno-Dépôt, it found that the company employed a training approach complementary to its own. The success of the *Académie Réno-Dépôt*, which provides hands-on training to employees and relies on vendor participation, has prompted RONA to roll out the program across the network in 2004.



### Harmonized policies

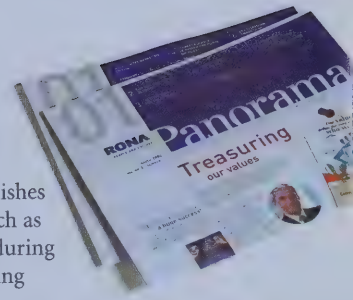
Following the Revy/Lansing and Réno-Dépôt/The Building Box acquisitions, the People and Culture team has redoubled efforts to standardize the Company's various programs and policies pertaining to personnel, internal communications and corporate culture.

During the year, the team finished harmonizing the compensation programs for RONA's corporate store employees. This included implementing a new national incentive plan in spring 2003 based on achieving and exceeding objectives and introducing a new benefit plan in the corporate stores to replace six programs that existed previously.

### Communication at all levels

Internal communications play an essential role in RONA's development. RONA bolsters employee support for its business plan through a host of communication tools and initiatives. For example,

the Company produces information videos, organizes site visits and publishes national information newsletters such as *Panorama*, distributed periodically during the year, and *Dialogue*, sent out during post-acquisition integration periods.



### Tuned in to our stores

In June 2003 RONA launched a major initiative called "Listening to our stores," aimed at obtaining feedback from its corporate stores in Central and Western Canada.

In response to the comments and suggestions received from store managers and employees, RONA improved communication between the various network components, eliminated some duplication and harmonized and simplified processes and initiatives.



## A proven integration plan

The acquisition of the Réno-Dépôt network, completed in September 2003, fit in with RONA's strategic growth plan, which has well-defined criteria for selecting businesses to acquire and integrate.

Based on the Company's selection criteria, each acquisition must:

- be strategically in line with RONA's business model;
- be profitable from the outset;
- have high potential for integration synergies; and
- have talented, experienced managers.

Once the acquisition is concluded, RONA then implements a rigorous integration plan, developed, proven and refined during the Company's successive acquisitions of the Cashway Building Centres, Revy Home Centres and Lansing Buildall. It was this expertise and experience that allowed RONA to begin the integration process as soon as the Réno-Dépôt acquisition was announced, even before the close of the transaction.

RONA set up a three-step integration process. During Step 1, or the pre-close, joint committees comprising RONA and Réno-Dépôt employees analyzed the Company's operating methods and activities in order to identify the key processes, develop solutions and formulate recommendations.

In Step 2, which immediately followed the close of the transaction, RONA reorganized its administrative structure, making changes within the management team.

Lastly, in Step 3, the post-close period of 90 days, RONA management gradually implemented the operating changes that will allow the Company to realize synergies over the next 18 to 24 months.

To achieve these synergies, RONA adopted a series of key measures in fall 2003, some of which are described in this annual report. One of the most visible ones is the conversion of The Building Box stores in Ontario to the RONA Home & Garden banner in spring 2004.

# The secret to our **Success**

RONA's distribution and purchasing activities underpin its entire commercial strategy.

By selecting vendors, negotiating agreements to offer retailers in the network the best products at the best possible price and ensuring their storage and efficient shipping, RONA's purchasing, procurement and distribution professionals lay a solid foundation for the Company's retail operations.

## **The best procurement conditions**

Following the acquisition of the Réno-Dépôt/The Building Box network of stores, RONA took a new look at its purchasing methods.

Just as it did on the heels of the Revy/Lansing acquisition in 2001, RONA reviewed the commercial agreements concluded with its vendors in order to establish post-acquisition purchasing conditions that reflect the significant increase in its purchasing volume as well as RONA's new national scope.

The Company has also continued streamlining its vendor base, a process begun last year. RONA has consolidated the number of vendors with which it does business and strengthened its strategic ties with key vendors, developing joint business plans with them.

## **Promising alliances**

**In order to increase its purchasing power, RONA has forged strategic purchasing alliances with other global distribution retail leaders. The Company is now part of the Alliance International LLC and A.R.E.N.A. buying groups, established with partners from around the world.**

The Alliance International LLC buying group combines the purchasing volumes of Do It Best Corporation (United States), Home Hardware Stores Ltd. (Canada), and RONA. This group accounts for total sales of some **\$12.3 billion per year, placing it fifth worldwide** among buying alliances in the hardware and construction materials industry.





### A force across Canada

The new Calgary distribution centre will enhance RONA's national integrated distribution network, which has five other main facilities in Eastern, Central, and Western Canada.

RONA's largest distribution centre is a cutting-edge 650,000 sq. ft. facility located in Boucherville, just outside Montreal. The Company's nearly 530 stores are also served by an 85,000 sq. ft. distribution centre in Surrey, British Columbia, a 130,000 sq. ft. centre in Toronto, Ontario, a 90,000 sq. ft. centre in Halton Hills, Ontario, and a 40,000 sq. ft. facility in Dorval, Quebec.



**Marc Dufresne**  
Executive Vice-President  
Purchasing and Logistics



For its part, A.R.E.N.A. is an international buying alliance that includes RONA, ITM Entreprises (France), Zeus (Germany, Austria and Poland), Ditas (Denmark, Sweden and Norway), Mica (South Africa and Great Britain), and Mitre 10 (Australia). With total retail sales of over \$18.8 billion, A.R.E.N.A. ranks third worldwide among buying groups in the hardware-renovation industry.

Belonging to these alliances enhances the procurement channels used by RONA, which continues to buy primarily from Canadian vendors, particularly those present in the markets it serves. As such, RONA makes over 90% of its purchases from some 2,500 Canadian manufacturers and distributors.

**RONA: the quality brand**

In 2003, the Company finished deploying RONA's private label products in all its RONA Home & Garden and RONA Lansing points of sale, as well as in RONA Home Centre stores in the Western provinces.

The RONA private label today includes about 1,500 products. These items, of equal or better quality than national brands, are offered at lower prices to consumers. RONA's private label sales currently account for 10% of all its hardware product sales. The goal in the medium term is to increase this proportion to approximately 15%.

RONA's private label products help increase customer loyalty and are important tools to reinforce RONA's brand image and visibility, particularly in its new markets.

**An efficient network**

RONA's pan-Canadian distribution gives it unparalleled distribution capacity in the industry in North America, allowing it to maintain a service rate of over 95% and efficiently manage a multi-format network that sets itself apart by the fact that over 95% of the retailers in its network maintain loyalties to their RONA distributor.

Not only can RONA fill orders, it ensures their accuracy. The Company has one of the lowest error rates in its field in Canada (0.007%) for deliveries from the Boucherville distribution centre. Consequently, shipments can be received without being checked in-store, saving thousands of hours each year in the network.

RONA's distribution efficiency was once again recognized on the global scene in 2003. The Company ranked first among distributors in terms of efficiency in a study conducted by GMT Consulting and sponsored by Interlink, an international association of retail hardware companies. The study shows that RONA has the lowest operating costs as a percentage of distribution centre sales to the stores.

**Effective strategic intelligence tools**

**In 2003, RONA increased the quality of its financial information by setting up a route-to-market cost modeling system for its growing supplier base. The Company acquired and integrated Value Chain Analytics (VCA) software into its Activity-Based Management (ABM) software.**

As a result of data compiled by these strategic intelligence tools, RONA and its vendors can select the most efficient replenishment scenarios that best correspond to their respective needs: direct replenishment from the vendor to the retailer, indirect replenishment with storage service (approximately one month) or indirect replenishment by cross-docking products at RONA's distribution centres.

RONA has become the first company in Canada and one of the only ones in North America to use both software applications, which together make it possible to very accurately establish the cost of each distribution activity. In doing so, RONA can negotiate more effectively with vendors and improve the efficiency of its distribution channels with a view to optimizing efficiency across the entire supply chain.

**A new data warehouse**

In spring 2003, RONA implemented a new data warehouse, referred to as RD2W, tailored to the specific nature of its network in order to ensure optimal inventory management.

This sophisticated tool allows purchasing and marketing managers to access national sales information, and product availability and performance based on data generated by the Company's computer systems. Consequently, they can better meet the changing needs of consumers.

**With this data warehouse, which also allows cross-analyses, RONA can improve the performance and profitability of its stores, better track its promotional activities, and realize purchasing and operating synergies.**



Boucherville distribution centre in Q



**A new distribution centre in Western Canada**

On March 10, 2004, RONA opened a new 200,000 sq. ft. distribution centre in Calgary, Alberta. With an inventory of 100,000 sq. ft. of the products, this centre will support the network of stores and deliver RONA points of sale from Northwestern Canada to British Columbia.

The Calgary distribution centre is equipped with advanced distribution technology, installed at a cost of \$30 million. By significantly improving RONA's distribution capacity, these facilities will allow the Company to conclude new distribution agreements with vendors in Western Canada and Asia.

This new infrastructure will also allow RONA to increase its operating efficiency and retail profit margins. As well, the Company will be able to accentuate its development in the West by increasing the number of independent merchants it recruits in these provinces, stepping up the construction of new points of sale and making selective acquisitions.





#### **A force across Canada**

The new Calgary distribution centre will enhance RONA's national integrated distribution network, which has five other main facilities in Eastern, Central, and Western Canada.

RONA's largest distribution centre is a cutting-edge 650,000 sq. ft. facility located in Boucherville, just outside Montreal. The Company's nearly 530 stores are also served by an 85,000 sq. ft. distribution centre in Surrey, British Columbia, a 130,000 sq. ft. centre in Toronto, Ontario, a 90,000 sq. ft. centre in Halton Hills, Ontario, and a 40,000 sq. ft. facility in Dorval, Quebec.



**Marc Dufresne**  
Executive Vice-President  
Purchasing and Logistics

# A strong brand image and growing recognition

RONA's marketing activities include planning and coordinating efforts to enhance the Company's brand image and recognition and promoting its products and services to consumers.

RONA has always been at the vanguard of marketing strategies and makes it a point to align itself with projects that strengthen its leadership in the hardware-renovation industry.

## Growing recognition across the nation

Since spring 2003, the slogans "RONA - Vous voulez. Vous pouvez" and "RONA - The How-To People" have captured an enviable place in the imagination of Canadians from coast to coast.

Indeed, these slogans, which were used in RONA's first national advertising campaign, did wonders to increase its reputation across the country. Of course, changing the Revy name to RONA in the western provinces in March 2003 also greatly helped boost the Company's visibility. This change was also accompanied by a major advertising campaign featuring store personnel. The theme "My name is still Bob or Mary..." informed consumers that, although the name had changed, service remained the very best.

A recent study conducted on the Company's brand image in summer 2003 showed that RONA's brand indicator, i.e., its instant recognition, rose from 33% to 47% nationally in just one year, from June 2002 to June 2003.

The same study showed that RONA's brand indicator in Quebec was 86%, and it remains around this level year after year. In Ontario, RONA's instant recognition advanced from 26% to 32% during the period measured, while in the western provinces it jumped from 12% to 50%, topping the instant recognition levels observed for the Revy chain in the past.

In every market where RONA has extended its presence or made a major acquisition, the Company today enjoys greater overall instant recognition, store traffic has increased, and its private label products are growing in popularity with consumers.

## Harmonizing communication tools

In light of its growth, RONA decided to standardize and unify the communication tools that support its brand in order to further simplify its consumer offering.

For example, since early 2004, RONA has been producing one national flyer for all its banners, except for Botanix and Réno-Dépôt, which because of their distinct status, use their own advertising tools.

Some 230 million flyers are distributed each year. With its increased distribution frequency, RONA now sends out a flyer every week showcasing products offered by all its banners.

As part of this initiative to nationally integrate its marketing initiatives, RONA has also extended its most successful promotional activities "Run to RONA" across the country and increased its frequency.





**"If it exists, we've got it"**

For its part, the newly acquired Réno-Dépôt banner continued with its creative advertising program in 2003, focusing on a "warehouse" positioning and on showcasing its in-store product selection, and driving home the messages "If it exists, we've got it" and "Réno-Dépôt: driving down the cost of renovation."

In fact, the banner's latest campaign drew praise from the advertising industry. Two of its TV spots, which present non-existent products with wild features, earned silver and bronze medals at the Canadian *Marketing* magazine's *Marketing Awards*. As well, American magazine *Advertising Age* featured one of these spots on the home page of its website in May 2003 under the heading "TV spots of the Week."

A new Réno-Dépôt advertising campaign based on the same advertising platform is in the works and will be launched in spring 2004. The Company will also increase the number of Réno-Dépôt flyers it distributes to 35 million copies a year.



#### **Ma Maison RONA: a resounding success is adapted**



The first season of the reality-renovation TV show *Ma Maison RONA*, broadcast in Quebec on TVA in spring and summer 2003, greatly exceeded expectations, attracting an average of over 715,000 viewers. It will be recalled that this series is a competition between two families who must each renovate a house with the help of an architect, designer and contractor.

The 10 one-hour episodes ranked in the top 10 every week and climbed to number one on three occasions. The success of this show significantly enhanced RONA's visibility.

*Ma Maison RONA* also received accolades from the advertising industry, winning gold in the Television Category at the 2003 *Media Innovation Awards* presented by *Marketing* magazine.

The impact of *Ma Maison RONA* was magnified by the launch of an interactive website and by a cross-promotion in the Company's flyers, in point of sale material and in promotional spots aired on the TVA network.

The success of *Ma Maison RONA* has had a snowball effect. Not only has the series been renewed by TVA for a second season, beginning in 2004, it has also been adapted into English for Global TV.

Renamed *RONA Dream Home*, the show debuted in March 2004. This series is aired in prime time and involves two families in the Ottawa area.

#### **Targeted sponsorships**

In 2003 RONA also sponsored the reality-renovation series *Debbie Travis' Facelift*, presented on the Home & Garden Television (HGTV) channel. The concept of this series involves renovating and decorating a room in the home of a loved one during his or her absence.

In 2003, RONA also sponsored the *Stanley Cup Playoffs* on CBC, as well as the TV show *Salut Bonjour!* and *Fleurs et jardins*, both broadcast on TVA. The Company also enjoys high visibility on the *Sympatico.ca* website.

For its part, the Réno-Dépôt banner ensures that it is very visible in Canadian households by placing its logo in clear view on the rink boards, main screens and billboards of the Bell Centre, home of the Montreal Canadiens. Ads are also aired on TV during the games.



Debbie Travis' Facelift

### A passion for sport

RONA is pleased to help further sports education and professional athletes and to develop amateur sport through various partnerships and sponsorships.

#### The RONA cycling team

The RONA cycling team enjoyed both collective and individual success during its third season. The 2003 team won the *International Tour de Toona* in Pennsylvania.

RONA also sponsored two of the main events in which the team participated on Canadian soil: the Hamilton 2003 Road World Championship and the Challenge de la Coupe du monde de cyclisme féminin de Montréal.

#### Mélanie Turgeon

Through its new Réno-Dépôt banner, RONA is pleased to support the career of Mélanie Turgeon on the World Cup alpine ski team circuit. The partnership between Réno-Dépôt and Mélanie Turgeon began in 2000.

The skier had an illustrious year in 2003, winning the World Downhill Championship in February. She also ranked in the top 10 six times during the season, winning a bronze medal in January in the Super-G.



After an excellent season, Mélanie was sidelined in 2003-2004 with back problems. However, she plans to return to the slopes with a vengeance in 2004-2005.

### Canadian football

In 2003, RONA continued to enjoy excellent spinoffs from its long-term partnership with the Canadian Football League (CFL) and two of its teams. As the "Official Home Improvement Retailer" of the CFL, RONA gained national visibility during the Grey Cup. Moreover, the Company renewed its major sponsorship agreements with the Montreal Alouettes and the Ottawa Renegades.

### Solidarity at work

**Year after year, RONA and its retailers across the country get involved in communities to bring hope to the most vulnerable of their fellow citizens.**

In addition to supporting social agencies such as Accueil Bonneau, the Association québécoise de la fibrose kystique, Centraide, the Multiple Sclerosis Society of Canada – Quebec Division, and the Children's Aid Foundation, they also organized charitable activities in 2003 to raise money for hospital foundations and were involved in food, toy and fund drives for the disadvantaged, as well as donated products to help people evacuated in the B.C. forest fires, among other things.

#### The RONA Foundation continues its mission

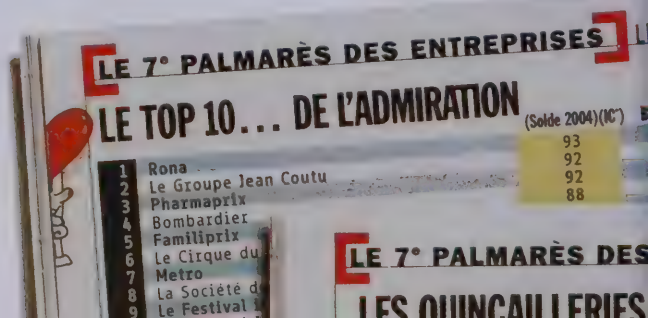
In 2003, the RONA Foundation continued to financially support the work of registered organizations that help young people age 12 to 30 in the fight against illiteracy and students dropping out of school. Thanks to its annual golf tournament, the RONA Foundation contributed \$125,000 to these organizations during the year.

#### A first national social partnership for RONA

In February 2004, RONA strengthened its ties with the Multiple Sclerosis Society of Canada by concluding its first national-scale social partnership and becoming the major sponsor of the Society's 19 Bike Tour, which will be held in seven provinces in Canada. RONA has also been sponsoring the Society's Quebec Véloutour since 2000.

### RONA, the most admired company in Quebec

According to a survey conducted by *Commerce* magazine in March 2004 on business perception and visibility, Rona ranked as the company most admired by Quebecers.





# An unmatched offering

The work of RONA's Merchandising team revolves around the Company's business strategy in both the figurative and practical sense because it is the link between our purchasing and retail operations.

The Merchandising team defines category strategies based on the market positioning of each banner and then selects the appropriate products. Its members are also responsible for analyzing sales, and store, category and product performance data as well as selecting the products that will be advertised in RONA's flyers to support the category strategies. And lastly, they define the retail price strategies.

## Providing retailer support

RONA's merchandising professionals provide our retailers with strategic support to ensure their success.

Among other things, they provide advice and logistical support when stores are opened or renovated and help optimize space allocation and the visual presentation of products in store.

Using their extensive knowledge of the hardware-renovation industry and market trends, they help retailers choose the right products to maximize sales.

## An optimal product assortment

Following the numerous acquisitions of the past few years, RONA decided in 2003 to streamline and standardize the number of products offered in its network.



The RONA private label includes some 1,500 products



**Normand Dumont**  
Senior Vice-President  
Merchandising

To this end, the Company launched the Optimum Selection project for the purpose of selecting an assortment of basic products that will define the commercial offering of its stores. Once the merchandising team completes its exhaustive study of each product category, RONA will be in the position to considerably reduce the number of SKUs in its database.

This exercise will allow the Company to offer an even more competitive and uniform selection of products and further boost its efficiency at various levels, including replenishment, transportation, data integrity, and space optimization in the distribution centres and stores.

## e-RONA

In 2003, RONA put the finishing touches on e-rona, a corporate intranet that connects all the Company's administrative centres and stores.

On this site, RONA retailers can find all the information they need to run and manage their business, including product catalogues and spec sheets, search engines, merchandising support and *The Merchandiser* newsletter containing an array of useful information for effective in-store product management. It also provides real-time access to market trends and material prices on the commodity markets.



In 2003, RONA introduced its new boutique concept for doors and windows in about 15 points of sale in Canada.

### Creating a merchandising team

In summer 2003, RONA took a major step to improve its merchandising efficiency, combining all its merchandising activities into a single department.

This new team now serves the needs of all the points of sale in the network, including big-box, traditional and specialized stores.

### Quality standards adapted to consumers

Together with the Marketing Retail Operations and Real Estate Development teams, the RONA Merchandising team has designed a prototype for each RONA banner for all the store types: traditional, specialized and big-box.

Acting like retail laboratories, the prototype combines the best services and management practices, optimal product selection and the most functional product merchandising and layout. The resulting standardized merchandising tools make for a uniform visual presentation in the stores.

The distinctive elements of the virtual prototypes will appear in every RONA store across the country according to the store construction and renovation program. They were already implemented during the construction and merchandising of the new RONA Home & Garden in Kingston, Ontario, Edmonton, Alberta and RONA Le Renovateur in Boucherville, Québec.







RONA Building Centre in Midland, Ontario

# A solid national network

**RONA's network of traditional and specialized stores extends from coast to coast, from Newfoundland to British Columbia, including Nova Scotia, New Brunswick, Quebec, Ontario, Manitoba, Saskatchewan, and Alberta.**

RONA's 291 traditional points of sale, also called neighbourhood stores, include small and mid-sized local hardware stores and renovation centres that are part of their community's social fabric. They all display one of the following banners: RONA Le Rénovateur, RONA Home Centre, RONA Le Quincaillier, RONA L'express or RONA Hardware.

For their part, RONA's 174 specialized stores that bear the names RONA L'express Matériaux, RONA Building Centre, RONA Lansing, RONA Cashway or Botanix are points of sale adapted to the needs of construction and renovation contractors, trades people, gardeners and expert do-it-yourselfers.

### A 35,000 square foot traditional store

RONA's new traditional store is designed to meet the needs of all consumers, male and female, do-it-yourselfers and contractors looking for the friendly atmosphere characteristic of smaller stores but also a wide assortment of products. Dedicated environments within the store are designed to suit both the consumer's style and needs.

Customers interested in interior decoration and renovation will enjoy the special "boutique" shopping sections featuring paints, mouldings, lighting, decorative items, and the latest products. Other sections (lumber, tools, and ironwork, for example) carry products and services to meet the demands of contractors and the building trade.

Thanks to these new upgraded traditional hardware stores, consumers in small communities, the same consumers who have made up RONA's main customer base all along, will find a RONA store nearby that meets the latest standards in hardware and renovation markets.



**Claude Bernier**  
Executive Vice-President  
Traditional and Specialized Stores

### A dynamic network

As part of its program to continuously upgrade its network, RONA in 2003 expanded, renovated, and either partially or fully reorganized some 120 stores owned by RONA, its affiliated dealers or franchisees. In addition to big-box stores, the Company channelled its efforts to the RONA Building Centre (launched in Spring 2003), RONA Home Centres and their Quebec equivalent RONA Le Rénovateur.

RONA's teams set up 29 specialty boutiques in its traditional and specialized stores, semi-enclosed spaces that focus on specific product categories such as doors and windows, paint and decor.

As part of their national R&D efforts, RONA's professionals have developed a new RONA Le Rénovateur/RONA Home Centre store concept, which forms the basis for upgrading traditional stores. This new concept was rolled out in the last quarter of 2003 and officially launched in spring 2004 in Boucherville, Quebec. Other such stores will be built in 2004 in Prince Albert, Saskatchewan, and Fort McMurray, Alberta.





RONA Le Rénovateur in Boucherville, Quebec

A true cross between a big-box and traditional hardware store, this retail concept incorporates the distinctive elements of a big-box into a medium-sized store, including, notably, RONA's proven specialty boutiques. This "new format" store has a leading edge spaciouly designed shelving system, allowing it to keep more but less cluttered inventory in order to facilitate shopping.

#### **Increased efficiency**

In 2003, RONA finished implementing a new point-of-sale, accounting and inventory control computer system in its RONA Cashway stores in Ontario and RONA Home Centre stores in Western Canada.

In just a few months, this system significantly improved inventory management and customer service efficiency.

#### **An intensive recruitment campaign**

Launched in fall 2003, an intensive recruitment campaign for new dealers in Ontario and the western provinces began bearing fruit in the early months of 2004.

In January, RONA welcomed its first two affiliated points of sale in Western Canada: two renovation centres operated by Newton Enterprises in Portage la Prairie and in Newton, Manitoba. RONA already has 40 corporate stores in the West.

Across the country, 12 independent stores joined the RONA network during the year. And 2004 is shaping up to be an even more productive year for store recruitment.

#### **A renewed commitment**

While making major efforts to recruit new members, RONA is also relying on a major asset to ensure the development of its network: the loyalty and renewed commitment of its retailers.

For 65 years, RONA has had the privilege of being able to count on a large pool of dealers who have adopted the RONA partnership formula and have remained loyal to the organization. The RONA network today includes a new generation of highly qualified dealers, men and women who, in many cases, hold a college or university degree and who opted to take over from previous generations and continue growing their business with RONA.

## Sustained

# growth

The RONA network consists of 63 big-box stores located in Quebec, Ontario, Manitoba, Alberta, British Columbia and, as of summer 2004, Saskatchewan.

RONA's big-box stores offer a wide variety of products at low prices such as hardware, tools, construction materials, paint, and gardening, decor and seasonal items.

The RONA L'entrepôt, Réno-Dépôt and RONA Home & Garden points of sale serve the major urban centres, whereas the RONA Le Régional stores are located in mid-sized markets. With floor space ranging from 60,000 to 165,000 square feet, these stores are spacious and offer personalized customer service.

### A promising acquisition

The acquisition of the 20 Réno-Dépôt / The Building Box stores in September 2003 instantly gave RONA national stature, prompting the Company to step up the process of **standardizing its operating methods**. RONA also proceeded with a comprehensive analysis of its product lists and the best practices in use in the big-box stores of the two newly merged chains.

This exchange of information, department by department, not only allowed us to identify the products and services that best meet the needs of consumers in each region served but also to identify the work methods, organizational models and technology resources that will boost performance in stores throughout the network.

### Conversion of The Building Box stores

In spring 2004, RONA converted its six new The Building Box Ontario points of sale to the RONA Home & Garden banner. This harmonization will allow the company to increase its visibility in the big-box segment in Ontario.

The addition of these six RONA Home & Garden stores also provides RONA with unprecedented commercial strength in the highly strategic market of metropolitan Toronto. The Company will be able to benefit from a more powerful advertising presence, greater team synergy and an expanded pool of resources.

A major marketing campaign will highlight this transition in the Ontario network starting in April 2004.





### **Réno-Dépôt: a strong, distinct brand**

For their part, the Réno-Dépôt stores in Quebec will keep their identity, which has enjoyed an excellent reputation with construction and renovation professionals for the past decade.

**Having both the Réno-Dépôt and RONA banners in the Quebec big-box landscape will allow the Company to continue leveraging the banners' respective strengths and characteristics that appeal to different consumer groups.**

For example, the Réno-Dépôt stores will keep the attributes that have earned the loyalty of construction professionals and expert do-it-yourselfers, whereas the RONA stores will continue to offer seasonal and decor products.







RONA Home & Garden in Kingston, Ontario

#### Expanding to the East and to the West

During the past year, RONA has consolidated its presence in the Ontario and western markets by opening two new big-box RONA Home & Garden stores and beginning construction of five other points of sale under this banner.

In November 2003, RONA inaugurated a 120,000 sq. ft. RONA Home & Garden in Kingston, Ontario. This store is the first incarnation of RONA's new big-box prototype.

The Company also began construction of two other RONA Home & Garden stores in this province. The first, in Kitchener-Waterloo, should open its doors in summer 2004, while the second, in Barrie, is slated to open in 2005.

In Western Canada, RONA opened its 63rd big-box in Edmonton, Alberta in February 2004 measuring 140,000 sq. ft. A month later, it began building its first big-box in Regina, Saskatchewan. This 110,000 sq. ft. retail space should open its doors by the end of summer 2004.

Finally, in spring 2004, RONA will begin construction of new big-box stores in Calgary, Alberta, and Richmond, British Columbia.



**Pierre Dandoy**  
Executive Vice-President  
Big-Box Stores

#### Enhancing the Shopping Experience

In 2003, the RONA big-box team conducted specific research and development aimed at enhancing the consumer experience in our stores.

One of its tasks was to redefine the proportion of space reserved for customers and for products in order to make shopping easier. To this end, the team members put themselves in the place of the consumer, conducting analyses and simulations with a view to maximizing efficiency and the pleasure associated with the shopping experience.

The resulting innovations will accentuate the lifestyle aspect of RONA's big-box stores, imbuing them with a comfortable "at home" atmosphere. We will incorporate, among other things, specialized boutiques focused on a single product category and providing personalized service.





#### Réno-Dépôt: a strong, distinct brand

For their part, the Réno-Dépôt stores in Quebec will keep their identity, which has enjoyed an excellent reputation with construction and renovation professionals for the past decade.

**Having both the Réno-Dépôt and RONA banners in the Quebec big-box landscape will allow the Company to continue leveraging the banners' respective strengths and characteristics that appeal to different consumer groups.**

For example, the Réno-Dépôt stores will keep the attributes that have earned the loyalty of construction professionals and expert do-it-yourselfers, whereas the RONA stores will continue to offer seasonal and decor products.



# Corporate Governance

**In the interest of its shareholders, RONA has adopted strict corporate governance rules.**

## **Composition and responsibilities of the Board of Directors**

The Board of Directors is composed of 13 members, all from outside the Company except the president and chief executive officer. Eight of the directors are unrelated members within the corporate governance guidelines of the Toronto Stock Exchange. Besides the chief executive officer, four directors are related members in their capacity as franchised or affiliated RONA dealers.

The positions of chairman of the board and chief executive officer are separate.

The Board of Directors is responsible for the Company's management. To this end, it has adopted policies and procedures to fulfill its mandate. In so doing, it oversees the conduct of the Company's business and supervises its executives who are responsible for running the business. Every year, the Company's senior management reviews and updates the Company's strategic plan and submits the details thereof to the Board of Directors. Based on an analysis of the Company's market position, the strategic plan sets out a growth strategy.

As well, in conjunction with senior management, the Board is responsible for identifying the principal risks associated with the Company's business and ensuring the implementation of appropriate systems for their management.

## **Composition and responsibilities of Board committees**

The Board of Directors has three committees:

**The Human Resources and Compensation Committee:** The Committee's mandate is to recommend and have the Board of Directors approve i) the principles governing the recruitment and evaluation of the president and chief executive officer and senior management reporting to the latter, (ii) all the compensation programs or policies applicable to senior management and employees, and (iii) a senior management development and succession plan. This committee also recommends to the Board of Directors, the hiring and employment conditions of the senior officers and determines (and obtains approval by the Board of Directors) the duties of the president and chief executive officer. On an annual basis, the committee recommends senior management's compensation and obtains approval by the Board of Directors. The Committee also sees to the application of all policies pertaining to human resources, ensures the Company complies with applicable legislation and bylaws, examines financing and investment policies, the return and capitalization of the Company's and its subsidiaries' pension plans, and if applicable, submits appropriate recommendations to the Board of Directors.

The Human Resources and Compensation Committee is chaired by Louis A. Tanguay and has three outside, unrelated members.

**The Nominating and Corporate Governance Committee:** The Committee's mandate is to recommend and have the Board of Directors vet (i) a corporate governance charter in accordance with applicable legislation and bylaws, and (ii) a code of ethics and conduct for Board members, officers and employees and for ensuring its application. It is also charged with reviewing the size of the Board of Directors with a view to ensuring optimal decision-making and efficiency and, if necessary, submitting appropriate recommendations to the Board of Directors. The Nominating and Corporate Governance Committee recommends and has the Board of Directors vet (i) a performance evaluation mechanism for the Board of Directors and its committees and the contribution of the directors, as well as the (ii) competencies, aptitudes and personal qualities to seek out in new directors. The Committee also recommends candidates for directorships. It is also responsible for setting up an orientation and training program for directors, and recommending and having the Board of Directors vet director compensation. It also recommends and obtains Board approval for the Company's communications policy and sees to its application. Lastly, it reviews and authorizes the requests of directors to periodically retain, in the exercise of their duties, the services of outside advisors, at the Company's expense.

The Nominating and Corporate Governance Committee is chaired by Jacques Bougie, O.C. and has four outside members, most of whom are unrelated.

**The Audit Committee** oversees the presentation of financial information, risk management, internal controls and compliance, as well as dealings with the external auditors.

With respect to the presentation of financial information, the Audit Committee is responsible for (i) reviewing the quality and integrity of the presentation of the Company's financial information, namely, to ensure that allowances, reserves and estimates that could have a material impact on the presentation of the financial information are reasonable; (ii) reviewing the Company's quarterly and annual financial statements; and (iii) reviewing operations that could affect the Company's stability.



- 1) Member of the Audit Committee.
- 2) Member of the Executive Committee (until it was abolished on March 31, 2004).
- 3) Member of the Human Resources and Compensation Committee.
- 4) Member of the Nominating and Corporate Governance Committee.
- 5) Serving until the next annual general meeting of RONA shareholders on May 18, 2004.

With respect to risk management, internal controls and compliance, the Committee is responsible for (i) coordinating with management the implementation and maintenance of appropriate internal control systems, and together with management, evaluating their relevance and efficiency; (ii) examining the Company's insurance coverage and ensuring its sufficiency; (iii) reviewing the Company's risk assessment and management policies; (iv) reviewing any assignment or leasing of assets, material expenses or operations that could affect the Company's structure or financial position; (v) establishing a mechanism for handling any complaints regarding audit and accounting issues; and (vi) ensuring that the Company respects its financial commitments and complies with the legal and regulatory requirements governing it.

In its dealings with the external auditors, the Audit Committee is responsible for (i) recommending and having the Board of Directors and the shareholders approve the appointment or dismissal, as the case may be, of the external auditors; (ii) approving the fees associated with the auditing mandate and any other audit service provided by the external auditors; (iii) reviewing with the external auditors the external audit plan and the audit results, as well as ensuring the qualifications, independence and objectivity of the external auditors; (iv) supervising the work of the external auditors, including overseeing the settlement of disputes between management and the external auditors in connection with the presentation of financial information and examining with the external auditors any audit-related issue and management responses in this regard; and (v) ensuring that the external auditors are accountable to the Audit Committee and the Board of Directors.

Lastly, since 2004 an internal audit department has been ensuring the Audit Committee effectively executes its responsibilities with respect to the Company's internal controls and risk management.

The Audit Committee is chaired by Monique F. Leroux and is comprised of four outside members, most of whom are unrelated.

## Board of Directors

### **Boris Blache** <sup>(1) (5)</sup>

President  
S.A. Lebal,  
Société Bricomarché,  
Vulaines-sur-Seine,  
and S.A. Frelor Société  
Bricomarché, Chartrettes

**Director since May 1998**

### **Alain Bouchard** <sup>(3)</sup>

Chairman of the Board,  
President  
and Chief Executive Officer  
Alimentation Couche-Tard Inc.  
(convenience stores network)

**Director since July 2001**

### **Jacques Bougie, O.C.** <sup>(1) (4)</sup>

Corporate Director

**Director since May 2003**

### **Louise Caya** <sup>(1)</sup>

Vice-President and Secretary  
Thomas Caya (1982) inc.  
(hardware)

**Director since May 2002**

### **Simon Cloutier** <sup>(2)</sup>

President  
Matériaux Decoren Inc.  
(hardware),  
General Manager  
RONA L'entrepôt Brossard  
and Co-Vice-Chairman  
of the Board, RONA Inc.

**Director since May 1998**

### **Frédéric David** <sup>(5)</sup>

Chairman of the Board  
ENIM S.A.

**Director since July 2001**

### **Robert Dutton** <sup>(2)</sup>

President and Chief Executive  
Officer, RONA Inc.

**Director since March 1990**

### **André H. Gagnon** <sup>(2)</sup>

President  
H. Gagnon & Fils (1975) Ltée,  
President  
RONA Le Régional,  
Saint-Hyacinthe  
(9066-7403 Québec inc.)  
and Chairman of the Board,  
RONA Inc.

**Director since March 1972**

### **Jean-Guy Hébert** <sup>(4)</sup>

President  
Maximat Inc.  
(holding company),  
Gestion J.G. Hébert inc.  
and RONA Le Régional, Granby  
(9060-4976 Québec inc.)

**Director since May 2002**

### **Monique F. Leroux** <sup>(1) (2)</sup>

President  
Desjardins Financial  
Corporation Inc.  
(holding company)  
and Chief Executive Officer  
of the Subsidiaries

**Director since May 2003**

### **André Roy** <sup>(4)</sup>

Executive Vice-President,  
Administration  
Société générale de financement  
du Québec

**Director since July 2001**

### **Louis A. Tanguay** <sup>(2) (3)</sup>

Corporate Director  
Co-Vice-Chairman of the Board,  
RONA Inc.

**Director since May 1999**

### **Jocelyn Tremblay** <sup>(3) (4)</sup>

Vice-President  
and General Manager  
Vins Philippe Dandurand Inc.  
(wine promotion agent)

**Director since May 1998**

# Management's Discussion and Analysis

RONA Inc. is Canada's leading retailer and distributor of home improvement, hardware and gardening products. As of February 29, 2004, the Company had 528 corporate, franchised and affiliated stores stretching from coast to coast, as well as six distribution centres in four provinces.

## RONA sales include:

- retail sales generated in its corporate stores;
- wholesale sales generated in affiliated stores belonging to owner operators that display a RONA banner and benefit from RONA's marketing programs;
- wholesale and royalties on retail sales generated in franchised stores as well as RONA's share of retail sales in these types of stores in which it holds an interest. RONA provides its franchised stores with administrative and operations management support.

## Stock split

On November 5, 2002, on the heels of its public offering, RONA restructured its share capital through a four-for-one split of its common shares. In this text, per-share amounts reflect this stock split.

## Major transaction

The analysis of the fiscal year must take into account the impact of the Réno-Dépôt acquisition and a share issue made to finance the purchase.

On April 23, 2003, RONA announced the acquisition of Réno-Dépôt Inc., a network of 20 big-box stores of which 14 are located in Quebec (under the Réno-Dépôt banner) and six in Ontario (under The Building Box banner) – boosting RONA's sales area by more than two million square feet. Subject to examination by the Competition Bureau, the transaction was approved on August 28, 2003, and concluded on September 10 of the same year. Réno-Dépôt's financial statements were consolidated into RONA's once the Competition Bureau approved the transaction on August 28. The Competition Bureau required that RONA sell one of the Réno-Dépôt stores in Quebec, which would not significantly impact results.

Réno-Dépôt was purchased for \$350 million, plus an adjustment of \$21 million reflecting changes in working capital, the portion of interest due on the purchase price between the announcement and close of the transaction, as well as transaction-related expenses. In addition, RONA benefited from a net cash flow of \$43 million drawn from Réno-Dépôt's operations between March 29 and August 28, 2003.

This transaction's impact on operations and results is explained in the relevant sections of this analysis.

The transaction was partially financed by an issue of 8.9 million new shares, which raised \$149.7 million before issue-related costs. This issue was completed on May 21, 2003 (the over-allotment option was exercised June 3), or more than three months before Réno-Dépôt was consolidated into RONA's financial statements. During this period, the issue therefore had a dilutive effect on earnings per share. Management is of the opinion that had the share issue been completed on August 28, diluted earnings per share would have increased by \$0.05 to \$1.49.

## The fiscal year in review

RONA sales and earnings soared again in 2003. This growth stems from a solid action plan that favours organic sales growth by building and modernizing points of sale, exercising sound judgment in making and integrating acquisitions and increasing profit margins through the significant synergies realized following acquisitions.

Consequently, RONA's net earnings grew for the 13th consecutive year, reaching \$77.9 million in 2003, an increase of 80.8% over last year. Earnings per share advanced 31.3% to \$1.47 (\$1.44 diluted), compared with \$1.12 (\$1.08 diluted) in 2002.

The weighted average number of outstanding shares rose from 38.5 million in 2002 to 53.1 million in 2003 following share issues completed in November 2002 and May 2003.



Table 3

### RONA: 2003 Quarterly and Annual Change in Net Distribution Sales and Net Corporate and Franchised Store Sales

(Net of Intersegment Sales)

Quarter	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	Year
Net distribution sales	+ 3.6%	- 9.0%	+9.0%	+ 3.3%	+ 0.8%
Net Corporate and Franchised store sales (including Réno-Dépôt)	+ 6.8%	+3.1%	+ 24.3%	+ 73.9%	+ 26.7%

Table 4

### RONA: 2003 Quarterly and Annual Change in Same-Store Sales

Quarter	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	Year
Change in same-store sales	+ 3.1%	+ 1.9%	+4.5%	+ 4.9%	+ 3.7%

#### Operating income climbs 35.9%

Operating income soared 35.9% over 2002 to \$175.1 million, representing 6.5% of sales, against 5.5% last year. This improvement stems from better operating efficiency, the gradual impact of purchasing and operating synergies realized by the integration of the Revy, Lansing and Réno-Dépôt acquisitions into RONA's operations, and the Company's growing presence in the retail sales sector where margins are higher than in the distribution sector.

Operating income rose sharply both in distribution and retail operations. Distribution activities generated operating income of \$41.9 million in 2003, an increase of 41.7% over last year. Achieved on a small increase in net sales, this progression is due, among other things, to the synergies realized, to sustained improvement in the efficiency of the Company's distribution operations and to the modernization of its information systems. Operating income from distribution activities represented 4.4% of sales, compared with 3.1% in 2002.

Operating income from retail activities climbed 34.2% over last year to \$133.2 million, representing 7.6% of retail sales, against 7.2% in 2002. This gain is attributable to the Company's marketing programs, the introduction of RONA private label products in Western Canada, a reduction in inventory losses and a decrease in store operating costs.

#### Interest, depreciation and amortization

Interest expense for the year amounted to \$17.5 million, compared with \$27.1 million in 2002. This 35.5% drop is attributable to a decrease in the average cost of debt, to operating cash flow net of investments, and to the share issues completed in November 2002 and May 2003.

Up 10.9% over 2002, depreciation and amortization totalled \$35.5 million for the year. This increase stems from the Réno-Dépôt acquisition as well as capital investments in connection with the opening of new points of sale, the renovation of existing stores and the development of computer systems.

Table 5

### RONA: Quarterly Consolidated Financial Results (Unaudited)

(in millions of dollars, except earnings per share)

	2003				2002			
	1	2	3	4	1	2	3	4
Net sales	467.5	703.7	748.3	790.8	443.8	717.8	630.6	539.9
EBITDA	21.3	55.2	50.6	48.0	19.3	46.4	36.4	26.7
Net earnings	5.8	27.0	24.1	21.0	3.8	18.3	11.9	9.1
Earnings per share (\$)	0.12	0.54	0.43	0.37	0.10	0.49	0.32	0.21
Diluted earnings per share (\$)	0.12	0.53	0.42	0.37	0.10	0.47	0.31	0.20

The Network

Table 1  
RONA: Number of Stores in 2003 and 2002  
(including Réno-Dépôt store put up for sale)

www.rona.ca			
528 stores (527 in 2002)	big-box stores (41 in 2002)	traditional stores (311 in 2002)	specialized stores (175 in 2002)
133 corporate stores (118 in 2002)	Réno-Dépôt The Building Box RONA Le Régional RONA L'entrepôt RONA Home & Garden	RONA Home Centre	RONA Building Centre RONA LANSING RONA CASHWAY
23 franchised stores (24 in 2002)	RONA Le Régional RONA L'entrepôt		RONA Building Centre RONA CASHWAY
372 affiliated stores (385 in 2002)		RONA Le Quincaillier RONA Le Renovateur RONA L'express RONA Hardware RONA Home Centre	RONA L'express RONA Building Centre BOTANIX

On February 29, 2004, the RONA network comprised 528 stores. The number of big-box stores increased considerably over last year as a result of the Réno-Dépôt acquisition. Well-established in Quebec, the Réno-Dépôt banner will remain in this province; however, in Ontario, The Building Box name will be replaced by RONA Home & Garden in April 2004.

RONA expanded its big-box network during the year, opening a new Home & Garden in Kingston, Ontario, and beginning construction of three others: one in Kitchener-Waterloo, Ontario, another in Regina, Saskatchewan and a third in Edmonton, Alberta, which was inaugurated on February 12, 2004.

In spring 2003, all the Company's stores in the West under the Revy Home & Garden Warehouse, Revy Home Centres and Revelstoke Home Centre were converted to the RONA banner.

The number of traditional and specialized stores dropped slightly mainly due to market consolidation but also following the elimination of certain non-performing stores, for the most part not affiliated with a RONA banner. The Company recruited about a dozen high-quality affiliated stores across the country during the year, and lastly, refurbished its network by relocating and renovating 120 points of sale.

Analysis of operating results

Net sales jump 16.2%

RONA's consolidated net sales include sales generated by its distribution centres and corporate stores, as well as the Company's share of franchised store sales.

Consolidated net sales for the year 2003 therefore amounted to \$2,710.3 million, an increase of 16.2% over the \$2,332.1 million recorded in 2002. Excluding Réno-Dépôt's contribution, consolidated sales would have advanced 3.6%.

Distribution sales are made up mainly of sales to affiliated and franchised stores, along with deliveries from RONA's distribution centres to corporate stores. Distribution sales rose 7.9% for the year, primarily due to a solid performance by the corporate and franchised stores. In fact, distribution sales, net of inter-segment sales, amounted to \$953.7 million for the year ended December 28, a gain of 0.8% over 2002. This weak annual growth is the result of a sharp decrease recorded in the second quarter as affiliated stores felt the impact of lower lumber prices.

Net of intersegment sales, retail sales for franchised and corporate stores combined advanced 26.7% to \$1,756.6 million in 2003. Some of this growth from the Réno-Dépôt acquisition, whose sales were consolidated with 1 in the last four months of the year. Excluding this acquisition, sales moved ahead 5.5% for the year, a good performance for the corporate and franchise store network.

Same-store sales rose 3.7% in 2003. The annual growth pace was slowed by the result of a small gain recorded in the second quarter, which was affected by the decrease in lumber prices and exceptionally unpleasant weather. This was subsequently picked up for the rest of the year.

Table 2  
RONA: Key Segment Figures 2003

	Distribution (\$ in millions)	Change in % over 2002	Corporate and Franchised Stores (\$ in millions)	Change in % over 2002	Total (\$ in millions)
Segment net sales	1,525.3	7.9	1,766.3	26.6	3,291.6
Intersegment net sales and royalties	(571.6)		(9.7)		(581.3)
Net sales	953.7	0.8	1,756.6	26.7	2,710.3
Operating income (EBITDA)	41.9	41.7	133.2	34.2	175.1

Financial highlights

(in thousands of dollars, except figures relating to earnings per share, diluted earnings per share, shares and percentages)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Operations											
Net sales	\$ 2,710,268	\$ 2,332,119	\$ 1,834,544	\$ 1,317,505	\$ 988,385	\$ 818,051	\$ 707,093	\$ 656,850	\$ 587,302	\$ 580,359	\$ 477,696
Percentage increase	16.2 %	27.1 %	39.2 %	33.3 %	20.8 %	15.7 %	7.6 %	11.8 %	1.2 %	21.5 %	6.3 %
Operating income (EBITDA)	175,063	128,784	90,528	60,088	37,175	30,570	25,734	20,212	16,204	15,268	13,767
Net earnings	77,947	43,114	24,633	18,013	14,706	13,511	11,063	9,130	6,932	6,895	5,396
Earnings per share	\$ 1.47	\$ 1.12	\$ 0.74	\$ 0.59	\$ 0.46	\$ 0.41	\$ 0.40	\$ 0.34	\$ 0.26	\$ 0.24	\$ 0.18
Diluted earnings per share	\$ 1.44	\$ 1.08	\$ 0.71	\$ 0.56	\$ 0.44	\$ 0.39	\$ 0.40	\$ 0.34	\$ 0.26	\$ 0.24	\$ 0.18
Common shares											
Outstanding	56,807,065	47,621,944	36,873,652	28,841,780	30,464,064	31,182,564	32,170,992	26,458,720	26,718,660	27,369,560	28,584,028
Cash flows from operating activities	114,135	83,257	68,038	33,051	(5,617)	30,615	10,240	15,258	11,502	4,691	5,493
Financial structure											
Total assets	1,262,022	766,434	744,076	450,973	287,916	253,575	165,692	142,291	130,588	97,543	91,903
Shareholders' equity	610,283	385,702	211,820	132,658	121,002	108,683	98,189	56,741	47,842	41,724	36,359
Long-term debt	163,925	99,337	283,788	104,514	36,242	34,877	4,639	26,259	9,833	10,423	7,857



Table **3**

**RONA: 2003 Quarterly and Annual Change in Net Distribution Sales and Net Corporate and Franchised Store Sales**

(Net of Intersegment Sales)

Quarter	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	Year
Net distribution sales	+ 3.6%	- 9.0%	+9.0%	+ 3.3%	+ 0.8%
Net Corporate and Franchised store sales (including Réno-Dépôt)	+ 6.8%	+3.1%	+ 24.3%	+ 73.9%	+ 26.7%

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Earnings per share (\$)	0.12	0.54	0.43	0.37	0.10	0.49	0.32	0.21
Diluted earnings per share (\$)	0.12	0.53	0.42	0.37	0.10	0.47	0.31	0.20

**Table 6****RONA: Contractual Obligations by Term**

(As at December 28, 2003)

<b>Contractual Obligation</b>	<b>Payments by Term (in thousands of dollars)</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-2 years</b>	<b>3-4 years</b>	<b>5 years and more</b>
Long-term debt	247,920	97,704	32,268	6,740	111,208
Obligations under capital leases	7,413	3,083	3,870	425	35
Operating and other leases	822,800	69,286	130,160	107,015	516,339
Service contracts	30,000	7,500	15,000	7,500	-
Other long-term obligations	12,372	2,649	3,366	2,357	4,000
<b>Total</b>	<b>1,120,505</b>	<b>180,222</b>	<b>184,664</b>	<b>124,037</b>	<b>631,582</b>

**Cash flows and financial position**

Operating cash flow rose 37.1% from \$83.3 million in 2002 to \$114.1 million in 2003. Thanks to strict management, changes in working capital boosted the Company's liquidity by \$4.7 million despite the Company's strong growth in 2003.

The year was active in terms of investments, which required \$400.9 million. Of this amount, \$328.1 million was used to purchase Réno-Dépôt and \$72.3 million was primarily spent to build a new distribution centre in Calgary and big-box stores in Kingston, Ontario, and Edmonton, Alberta. As is customary every year, funds were also used to renovate existing stores and upgrade the Company's computer systems.

The common share issue generated a net cash inflow of \$145.4 million. Loans, net of repayments and preferred share redemptions, contributed \$137.8 million to the Company's financing requirements.

On the heels of the Réno-Dépôt acquisition, RONA renegotiated its credit agreements. As at December 28, 2003, RONA's credit facilities totalled \$567 million. Thanks to its financial prudence, RONA maintained a solid balance sheet despite strong growth in 2003, ending the year with a debt/capital ratio of 32%, against 25.7% a year earlier, and an asset/equity ratio comparable to last year's (almost 50%).

In order to develop and renovate its stores and remain on the cutting edge of technology, the Company plans to spend over \$125 million in capital investments in 2004, excluding leasebacks. Real estate projects will be subject to leaseback agreements.

Moreover, if interesting opportunities with favourable terms and conditions arise, RONA could make additional acquisitions. Management believes it has the financial resources required to continue its development and execute its business plan.

**RONA listed on S&P/TSX Composite Index**

In December, RONA's common shares were listed on the S&P/TSX Composite Index. Since then, the liquidity of RONA's stock has increased. Management believes that all things being equal, this improved liquidity makes the stock more appealing to investors.

**Table 7****RONA: Outstanding Shares as at March 22, 2004**

<b>Common shares</b>	56,878,494
<b>Unexercised options</b>	1,594,100
<b>Total</b>	<b>58,472,594</b>

**Risks and uncertainties**

The hardware, home improvement and gardening products industry is highly competitive. RONA's competitors include large national chains, regional group and independent stores. Nonetheless, management believes that the Company has demonstrated its ability to prosper in this climate and in all market segments. Indeed, RONA has a number of advantages: a portfolio of banners and multi-format stores, a coast-to-coast presence, and a major distribution network.

RONA's industry is seasonal. First-quarter sales are always weaker because there is little renovation in the winter. In addition, bad weather can impact sales, particularly of seasonal products. Fluctuations in the price of lumber and other construction materials can also affect sales.

Of course, prevailing economic conditions are beyond the Company's control. Economic growth, the unemployment rate, interest rates and business and consumer credit are all factors with a potential impact on sales. In recent years, these factors have been favourable.

Beyond economic conditions, certain structural trends – aging homes (more than 65% of Canadian homes are more than 20 years old), an active resale market, growing interest in real estate investment, the aging population and the cocooning trend – all favour the development of RONA's industry sector.



Net sales attributed to affiliated stores represented 22% of net sales in all the Company's segments in 2003. If, despite its recruitment efforts, the Company were to lose a significant number of affiliated stores, sales would be adversely affected. However, the average affiliated store has been associated with RONA for 15 years and over 93% of such stores are committed to remaining with the Company until at least November 2012. Indeed, they have entered into an agreement granting the Company a right of first refusal for their stores. Affiliated and franchised stores posted 95% buyer loyalty in 2003. The average affiliated store accounted for 0.1% of the Company's consolidated net sales in 2003 and none represented more than 1.8% of RONA's consolidated net sales.

#### Forward-looking financial information

This analysis contains forward-looking statements reflecting RONA's objectives, estimates and expectations. Such statements may be marked by the use of verbs such as "believe," "anticipate," "estimate" and "expect" as well as the use of the future or conditional tense. By their very nature, such statements involve risks and uncertainty. Consequently, results could differ materially from the Company's projections or expectations.

#### Outlook

Although a number of economists have revised their Canadian growth estimates downward for 2004, they are still projecting positive figures. Employment should therefore remain steady and even improve in 2004. As well, recent surveys show that Canadian consumers and businesses are very optimistic, which bodes well for large projects.

In this context, the renovation market should continue to benefit from the underlying trend that has supported strong growth in this sector for several years. Moreover, efforts to control the rise of the Canadian dollar against the U.S. dollar are keeping interest rates down, which in turn is stimulating the resale and renovation markets. Overall, the economic environment is therefore generally favourable for RONA.

RONA will continue to integrate Réno-Dépôt in 2004 and expects the recurring synergies realized from this acquisition to continue increasing during the year to a sustainable \$35 million per year.

As in the past, RONA's growth in 2004 will be fuelled by a number of sources. Its merchandising programs will drive organic growth, and the Company plans to increase its operating margins, mainly through a tight control of its operating costs and by realizing ongoing synergies from the Réno-Dépôt integration. Five new big-box stores are in the process of being built, and in 2004, the Company will open three to five points of sale under a new concept: a 35,000 sq. ft. neighbourhood store that will carry the RONA Le Rénovateur and RONA Home Centre banners.

The opening of the Calgary distribution centre will support RONA's current and future network in Western Canada, enabling it to step up its affiliate recruitment efforts in this region.

Lastly, RONA continues to look for acquisition opportunities that fulfill its highly stringent criteria.

#### Additional information

The reader can find additional information about RONA, including the Company's annual information form, on the SEDAR site at [www.sedar.com](http://www.sedar.com).



March 22, 2004

**Claude Guévin CA**  
Executive Vice-President  
and Chief Financial Officer

## Management's Report

# on the consolidated financial statements

Management is fully accountable for the consolidated financial statements of RONA Inc. as well as the financial information contained in this annual report. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and have been approved by the Board of Directors.

RONA Inc. maintains internal accounting and control systems which, in management's opinion, reasonably ensure the accuracy of financial information and efficient and effective command of the Company's business activities.

Chairman of the Board,



**André H. Gagnon**

The Board of Directors relies largely on its Audit Committee in assuming liability for the consolidated financial statements included in this report. The committee, which holds quarterly meetings with members of management and external auditors, has reviewed the financial statements of RONA Inc. and recommended their approval to the Board of Directors.

The attached consolidated financial statements have been audited by the firm Grant Thornton, general partnership.

Executive Vice-President and Chief Financial Officer,



**Claude Guévin CA**

## Auditors' Report

# to the shareholders of RONA Inc.

We have audited the consolidated balance sheets of RONA Inc. as at December 28, 2003 and December 29, 2002 and the consolidated statements of earnings, retained earnings and contributed surplus and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 28, 2003 and December 29, 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(S) Grant Thornton

**Grant Thornton**

General Partnership Chartered Accountants

Montreal, February 18, 2004



# Consolidated Earnings

Years ended December 28, 2003 and December 29, 2002  
(In thousands of dollars, except earnings per share)

	2003	2002
Net sales	\$2,710,268	\$2,332,119
Earnings before the following items	175,063	128,784
Interest on long-term debt	14,244	23,982
Interest on bank loans	3,249	3,118
Depreciation and amortization (Notes 10 and 11)	35,530	32,034
	53,023	59,134
Earnings before income taxes	122,040	69,650
Income taxes (Note 4)	44,093	26,536
Net earnings	\$ 77,947	\$ 43,114
Earnings per share (Note 21)	\$ 1.47	\$ 1.12
Diluted earnings per share (Note 21)	\$ 1.44	\$ 1.08

The accompanying notes are an integral part of the consolidated financial statements.

# Consolidated Retained Earnings Consolidated Contributed Surplus

Years ended December 28, 2003 and December 29, 2002  
(In thousands of dollars)

	2003	2002
Consolidated Retained Earnings		
Balance, beginning of year	\$ 133,843	\$ 99,822
Net earnings	77,947	43,114
	211,790	142,936
Expenses relating to the issue of common shares, net of income tax recovery of \$2,935 (\$3,426 in 2002)	6,342	7,110
Premium on purchase of common shares		1,983
Balance, end of year	\$ 205,448	\$ 133,843
Consolidated Contributed Surplus		
Balance, beginning of year	\$ 1,192	\$
Net gain on disposal of the Company's common shares by a company subject to significant influence and subsidiaries, net of income taxes of \$81 (\$270 in 2002)	261	1,192
Balance, end of year	\$ 1,453	\$ 1,192

The accompanying notes are an integral part of the consolidated financial statements.

# Consolidated Cash Flows

Years ended December 28, 2003 and December 29, 2002

(In thousands of dollars)

	2003	2002
<b>Operating activities</b>		
Net earnings	\$ 77,947	\$ 43,114
Non-cash items		
Capitalized interest on debentures		6,101
Depreciation and amortization	35,530	32,034
Future income taxes	(4,442)	1,701
Other items	15	(88)
	109,050	82,862
Changes in working capital items (Note 5)	5,085	395
Cash flows from operating activities	114,135	83,257
<b>Investing activities</b>		
Business acquisitions (Note 6)	(331,850)	
Advances to joint ventures and other advances	2,419	1,212
Other investments	(2,780)	(2,527)
Fixed assets	(72,341)	(35,308)
Other assets	(12,003)	(2,665)
Disposal of assets	15,643	9,198
Cash flows from investing activities	(400,912)	(30,090)
<b>Financing activities</b>		
Bank loans and revolving credit	50,064	(118,620)
Other long-term debt	117,203	595
Repayment of other long-term debt and redemption of preferred shares	(29,433)	(72,529)
Issue of common shares	152,715	149,259
Purchase of common shares		(785)
Expenses relating to the issue of common shares	(7,278)	(9,510)
Cash flows from financing activities	283,271	(51,590)
<b>Net increase (decrease) in cash</b>	<b>(3,506)</b>	<b>1,577</b>
Cash (outstanding cheques), beginning of year	475	(1,102)
Cash (outstanding cheques), end of year	\$ (3,031)	\$ 475

The accompanying notes are an integral part of the consolidated financial statements.



# Consolidated Balance Sheets

December 28, 2003 and December 29, 2002  
(In thousands of dollars)

**2003**      **2002**

## Assets

### Current assets

Cash	\$	475
Accounts receivable (Note 7)	139,070	131,910
Inventory	528,680	347,276
Prepaid expenses	7,787	7,246
Future income taxes (Note 4)	8,942	6,260
	684,479	493,167
Investments (Note 8)	25,124	34,359
Fixed assets (Note 10)	360,036	201,176
Goodwill	160,449	19,469
Other assets (Note 11)	13,636	7,967
Future income taxes (Note 4)	18,298	10,296
	\$1,262,022	\$ 766,434

## Liabilities

### Current liabilities

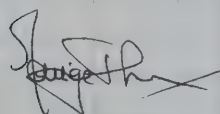
Outstanding cheques	\$	3,031	\$
Bank loans (Note 12)	19,945	13,568	
Accounts payable and accrued liabilities	327,914	234,194	
Income taxes payable	18,451	196	
Future income taxes (Note 4)	426	4,395	
Installments on long-term debt (Note 13)	102,997	20,803	
	472,764	273,156	
Long-term debt (Note 13)	163,925	99,337	
Deferred revenue	2,154		
Future income taxes (Note 4)	8,259	8,239	
Non-controlling interest	4,637		
	651,739	380,732	

### Shareholders' equity

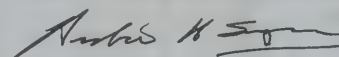
Capital stock (Note 14)	403,382	250,667
Retained earnings	205,448	133,843
Contributed surplus	1,453	1,192
	610,283	385,702
	\$1,262,022	\$ 766,434

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board,



**Monique Leroux**  
Director



**André H. Gagnon**  
Director

# Notes to Consolidated Financial Statements

December 28, 2003 and December 29, 2002  
(In thousands of dollars, except amounts per share)

## 1. Governing statutes, nature of operations and change in fiscal year-end

The Company, incorporated under Part 1A of the Companies Act (Quebec), is a distributor and a retailer of hardware, home improvement and gardening products in Canada.

In 2002, the Company changed its fiscal year-end from December 31 to the last Sunday of December.

## 2. Change in accounting policies

### Guarantees

In February 2003, the Canadian Institute of Chartered Accountants (CICA) released a new Accounting Guideline (AcG-14), *Disclosure of Guarantees*, which supplements previous disclosure requirements and requires disclosure in consolidated financial statements of interim and annual periods beginning on or after January 1, 2003 of obligations under guarantees regardless of the likelihood of the events occurring (Note 15).

### Stock-based compensation and other stock-based payments

The CICA has approved a new standard entitled *Stock-based Compensation and Other Stock-based Payments* which establishes standards of recognition, measurement and disclosure of stock-based compensation to non-employees and employees. Under the new standards, all stock-based compensation made to non-employees should be systematically accounted for in the Company's financial statements. These standards establish a fair value-based method of accounting for stock-based employee compensation plans. Under this method, compensation cost should be measured at the grant date based on the fair value of the award and should be recognized over the related service period. The Company adopted these new standards prospectively.

For awards granted before December 30, 2002, the Company did not recognize any compensation cost. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

The following table presents a reconciliation of pro forma earnings and earnings per share, as they would have been reported if the Company had adopted the fair-value method for the awards granted before December 30, 2002:

		2003	2002
Reported net earnings		\$ 77,947	\$ 43,114
Plus: Compensation cost recognized		49	
Less: Total compensation cost		(49)	(3,197)
Pro forma net earnings		\$ 77,947	\$ 39,917
Earnings per share	Reported	\$ 1.47	\$ 1.12
	Pro forma	\$ 1.47	\$ 1.04
Diluted earnings per share	Reported	\$ 1.44	\$ 1.08
	Pro forma	\$ 1.44	\$ 1.00

### Goodwill

During the first quarter of 2002, the Company adopted the new recommendations of CICA Handbook Section 3062 relating to accounting for goodwill and other intangible assets on a prospective basis. Under the new recommendations, goodwill and other intangible assets deemed to have an indefinite life are no longer amortized. These assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

During the second quarter of 2002, the Company completed its transitional impairment tests and has ascertained that no impairment loss needs to be recognized.

In accordance with the CICA's requirements, the aggregate amount of goodwill has been reclassified to be presented as a separate line item on the balance sheet.

## 3. Accounting policies

### Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from those estimates.

### Principles of consolidation

These financial statements include the accounts of the Company and its subsidiaries. Moreover, the Company includes its share in the assets, liabilities and earnings of joint ventures in which the Company has an interest. This share is accounted for using the proportionate consolidation method.

### Revenue recognition

The Company recognizes revenue at the time of sale in stores or on delivery to the customer, when recovery is reasonably certain.

### Inventory valuation

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the average cost method.

### Investments

When there has been a loss in value of a long-term investment that is other than a temporary decline, this loss is recognized in the statement of earnings.



### 3. Accounting policies (continued)

#### Fixed assets

Fixed assets are depreciated over their estimated useful lives using the following methods and annual rates:

	Methods	Rates
Parking lots	Straight-line	8% and 12.5%
Buildings	Straight-line	4%
Leasehold improvements	Straight-line	5% to 33%
Furniture and equipment	Diminishing balance and straight-line	10% and 20%
Computer hardware and software	Straight-line	10% to 33%

#### Goodwill

Goodwill is the excess of the cost of acquired enterprises over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized. It is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it is impaired. The impairment test consists of a comparison of the fair value of the Company's reporting units with their carrying amount. When the carrying amount of a reporting unit exceeds the fair value, the Company compares the fair value of goodwill related to the reporting unit to its carrying value and recognizes an impairment loss equal to the excess. The fair value of a reporting unit is calculated based on evaluations of discounted cash flows.

#### Other assets

Pre-opening expenses are amortized on a straight-line basis over a period from one to three years beginning at the start of operations.

Financing costs are amortized on a straight-line basis over the financing term, over periods ranging from one to three years.

Costs related to sale and leaseback agreements are amortized over the lease term according to the straight-line method.

#### Income taxes

The Company uses the tax liability method to account for income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse.

#### Deferred revenue

Deferred revenue represents amounts received in connection with advertising contracts. Deferred revenue is amortized using the straight-line method over the duration of the contracts.

#### Derivative financial instruments

The Company has entered into interest rate swaps which are not used as hedges for accounting purposes. Consequently, they are recognized at fair value and the resulting gains or losses are recorded in earnings.

#### Employee benefit plans

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets.

The Company has adopted the following policies for the defined benefit plans:

- The cost of pensions earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees;
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendments;
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of the active employees.

For defined contribution plans, the pension expense recorded in earnings is the amount of contributions the Company is required to pay for services rendered by employees.

#### Earnings per share and information pertaining to number of shares

Earnings per share are calculated by dividing net earnings available for common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated taking into account the dilution that would occur if the securities or other agreements for the issuance of common shares were exercised or converted into common shares at the later of the beginning of the period or the issuance date. The share redemption method is used to determine the dilutive effect of the stock options. This method assumes that proceeds of the stock options during the year which are in-the-money are used to redeem common shares at their average price during the period.

On November 5, 2002, the Company carried out an initial public offering which gave effect to a recapitalization resulting in all classes of then issued and outstanding common shares being recapitalized into a single class of newly created common shares on a 4 for 1 basis. The weighted average number of shares outstanding and related earnings per share information were adjusted retroactively to give effect to the split.

## 4. Income Taxes

	2003	2002
Current	\$ 48,535	\$ 24,835
Future	(4,442)	1,701
	<u>\$ 44,093</u>	<u>\$ 26,536</u>

Future income taxes arise mainly from the changes in temporary differences.

The Company's effective income tax rate differs from the statutory income tax rate in Canada. This difference arises from the following items:

	2003	2002
Federal statutory income tax rate	24.1%	26.1%
Statutory rate of various provinces	11.2	11.5
Combined statutory income tax rate	35.3	37.6
Non-deductible dividends, net of impact of non-taxable dividends	0.2	0.2
Non-deductible costs	0.5	0.7
Other	0.1	(0.4)
Effective income tax rate	<u>36.1%</u>	<u>38.1%</u>

Future income tax assets and liabilities result from differences between the carrying amounts and tax bases of the following:

	2003	2002
<b>Future income tax assets</b>		
Current		
Pension plans	\$ 362	\$ 557
Deferred non-capital losses	4,464	4,089
Direct costs related to business acquisitions	2,587	
Other	1,529	1,614
	<u>\$ 8,942</u>	<u>\$ 6,260</u>

Long-term		
Financing costs	\$ 810	\$ 407
Deferred non-capital losses	4,483	2,613
Share issue expenses	4,244	3,170
Fixed assets and pre-opening expenses	4,035	2,132
Pension plans	694	685
Incentive payments received	292	388
Goodwill	1,996	
Deferred advertising revenue	479	
Other	1,265	901
	<u>\$ 18,298</u>	<u>\$ 10,296</u>

### Future income tax liabilities

Current		
Federal input tax credits deducted	\$	\$ 4,335
Other	426	60
	<u>\$ 426</u>	<u>\$ 4,395</u>

Long-term		
Fixed assets, pre-opening expenses and big-box store development expenses	\$ 5,749	\$ 6,632
Goodwill	2,212	1,330
Other	298	277
	<u>\$ 8,259</u>	<u>\$ 8,239</u>



## 5. Information included in the consolidated statements of cash flows

The changes in working capital items are detailed as follows:

	2003	2002
Accounts receivable	\$ 5,652	\$ (20,546)
Inventory	(23,329)	(16,045)
Prepaid expenses	1,125	826
Accounts payable and accrued liabilities	15,933	25,236
Income taxes payable	5,704	10,924
	<u>\$ 5,085</u>	<u>\$ 395</u>

Cash flows relating to interest and income taxes on operating activities are detailed as follows:

	2003	2002
Interest paid	\$ 15,626	\$ 24,469
Income taxes paid	40,304	15,543

## 6. Business acquisitions

On August 28, 2003, the Company received approval from the Competition Bureau with respect to the acquisition, on March 29, 2003, of all of the outstanding shares of Réno-Dépôt Inc., a company operating in one of RONA inc.'s activity sectors, i.e. corporate and franchised stores. The results of operation for that company have been consolidated since the date of the approval from the Competition Bureau.

Taking acquisition costs into account, this acquisition was for a total cash consideration of \$371,415, from which net cash of \$42,600, arising from the operations of Réno-Dépôt from March 29, 2003 to August 28, 2003 and accruing to the Company's benefit, should be deducted. The acquisition was financed through the issuance of 8,935,500 new shares at a price of \$16.75 per share, for a total amount of \$149,670. In addition, new credit facilities were implemented for a maximum authorized amount of \$567,000, comprised of a three-year revolving credit of \$450,000 and a term loan of \$117,000.

The allocation of the purchase price was established as follows:

Current assets	\$ 193,820
Fixed assets	111,538
Goodwill <sup>(a)</sup>	140,980
Future income taxes	5,127
Current liabilities	(77,801)
Deferred revenue	(2,249)
	<u>371,415</u>
Less: Accrued acquisition costs, net of the related tax impact	(727)
Cash of acquired company	(42,600)
Cash consideration paid on September 10, 2003	<u>\$ 328,088</u>

<sup>(a)</sup> An amount of \$7,000 will be deductible for tax purposes.

The Competition Bureau has, however, required that the Company undertake the necessary steps to dispose of one Réno-Dépôt store located in Québec. Management has therefore established a plan of disposal in this regard.

During the last quarter of the year, the Company acquired 51% of the shares of François Lépérance inc., a company operating a chain of stores in Québec for a cash consideration of \$3,762. The assets acquired, which mainly included accounts receivable and inventory, and the liabilities assumed, which mainly included accounts payable, totalled \$17,000 and \$9,624 respectively. The results of operations are consolidated on the statements of earnings from the date of acquisition.

## 7. Accounts receivable

	2003	2002
Trade accounts		
Affiliated and franchised stores	\$ 54,239	\$ 36,788
Joint ventures	15,206	8,260
Companies subject to significant influence	1,657	2,753
Other (retail customers)	63,096	80,802
Advances to joint ventures, prime plus 3%	363	1,609
Other accounts receivable	3,296	228
Portion of investments receivable within one year	1,213	1,470
	<u>\$ 139,070</u>	<u>\$ 131,910</u>

## 8. Investments

	2003	2002
Joint ventures, at cost		
Preferred shares, dividend rate varying from 6% to 8.5%	\$ 7,728	\$ 10,502
Mortgages, weighted average rate of 8.8% (8.6% in 2002), maturing on various dates until 2015	4,675	7,502
Advances, prime plus 3%, without repayment terms	1,002	101
Companies subject to significant influence		
Shares, at equity value	3,075	4,198
Mortgages, at cost, 9.5%, maturing in 2015	1,137	1,192
Preferred shares, at cost, redeemable over ten years, maturing in 2011	640	720
Advances and loans, at cost		
Mortgages and term notes, weighted average rate of 7.8% (8.3% in 2002), maturing at different dates until 2016	7,818	8,673
Advances, prime plus 1.5%		2,600
Loans to managers for acquisition of shares, without interest, maturing in 2007	99	172
Other	163	169
	<u>26,337</u>	<u>35,829</u>
Portion receivable within one year	1,213	1,470
	<u>\$ 25,124</u>	<u>\$ 34,359</u>

The consolidated statements of earnings include dividend income of \$477 (\$476 in 2002) and interest income of \$1,971 (\$2,187 in 2002).

## 9. Interests in joint ventures

Interests in joint ventures are difficult to compare from one year to another since the Company can dispose its interests and can purchase interests in new joint ventures. Moreover, the latter may not have a complete financial year.

The Company's share in the assets, liabilities, income and cash flows relating to its interests in joint ventures is as follows:

	2003	2002
Current assets	\$ 23,763	\$ 25,311
Long-term assets	19,302	22,731
Current liabilities	19,083	20,427
Long-term liabilities	15,189	17,351
Net sales	101,535	101,797
Net earnings	1,742	639
Cash flows from operating activities	4,038	2,641
Cash flows from investing activities	(1,253)	(732)
Cash flows from financing activities	(1,606)	(2,430)

## 10. Fixed assets

	2003		
	Cost	Accumulated depreciation	Net
Land and parking lots	\$ 81,059	\$ 5,826	\$ 75,233
Buildings	144,368	29,407	114,961
Leasehold improvements	33,759	14,171	19,588
Furniture and equipment	119,496	56,953	62,543
Computer hardware and software	71,185	42,326	28,859
Projects in process <sup>(a)</sup>	37,882		37,882
Land for future development	15,344		15,344
Assets under capital leases <sup>(b)</sup>			
Furniture and equipment	920	454	466
Computer hardware and software	10,017	4,857	5,160
	<b>\$ 514,030</b>	<b>\$ 153,994</b>	<b>\$ 360,036</b>

<sup>(a)</sup> Projects in process include the costs related to the construction of the buildings which will be used for store operations and for the distribution centre in Calgary.

<sup>(b)</sup> During the year, the Company acquired \$5,895 of computer hardware and software by way of capital leases.

	2002		
	Cost	Accumulated depreciation	Net
Land and parking lots	\$ 29,797	\$ 1,482	\$ 28,315
Buildings	81,200	13,202	67,998
Leasehold improvements	14,753	2,399	12,354
Furniture and equipment	63,639	19,880	43,759
Computer hardware and software <sup>(c)</sup>	45,685	20,652	25,033
Projects in process <sup>(a)</sup>	4,741		4,741
Land for future development	17,770		17,770
Assets under capital leases			
Furniture and equipment	951	271	680
Computer hardware and software	3,786	3,260	526
	<b>\$ 262,322</b>	<b>\$ 61,146</b>	<b>\$ 201,176</b>

<sup>(c)</sup> Projects in process include the costs related to the construction of the buildings which will be used for store operations.

Depreciation of fixed assets represents \$29,024 for 2003 (\$22,330 in 2002).



## 11. Other assets

	2003	2002
At unamortized cost		
Pre-opening expenses	\$ 3,878	\$ 3,178
Financing costs <sup>(a)</sup>	9,286	3,886
Costs related to sale and leaseback agreements	395	481
Other	77	422
	<b>\$ 13,636</b>	<b>\$ 7,967</b>

<sup>(a)</sup> Financing costs relate to credit facilities (Note 12).

The amortization of other assets amounts to \$6,506 (\$9,704 in 2002).

## 12. Credit facilities

### a) Parent company and some subsidiaries

On September 10, 2003, the Company signed a new credit agreement for a total amount of \$567,000. The credit is comprised of a \$450,000 revolving credit with a revolving period maturing in September 2006 and a \$117,000 term loan. The term loan is payable in quarterly instalments of \$5,000 as of March 2004, except for the December 2004 instalment which will be for \$77,000, maturing in March 2006.

As at December 29, 2002, the Company had credit facilities totalling \$317,500 which were available to RONA and some of its subsidiaries. These credits were comprised of a \$50,000 seasonal revolving credit, a \$250,000 revolving credit and a \$17,500 term loan payable in quarterly instalments of \$2,500.

Interest rates can vary between prime rate plus 0.2% and prime rate plus 2% (plus 0.5% to plus 2% in 2002) based on the type of loan and the financial ratios achieved by the Company.

The credit facilities are secured by the universality of the assets of the Company and those of certain subsidiaries. These credit facilities have certain restrictions which the Company and certain subsidiaries must respect. The Company and certain subsidiaries are prohibited, among others, from assigning their assets and restricted regarding investments, additional debt, the payment of dividends and guarantees.

The Company is required to meet certain financial ratios. As at December 28, 2003, the Company is in compliance with these requirements.

Moreover, the Company has set up an unsecured credit facility for imports in the amount of \$15,000. The terms and conditions to be respected are the same as those of the \$567,000 credit agreement.

### b) Other subsidiaries and joint ventures

Bank loans are secured by an assignment of certain assets. The Company's share of these assets amounts to \$52,754 (\$43,814 in 2002). These bank loans bear interest at rates varying from prime rate to prime rate plus 1% and are renewable annually.

## 13. Long-term debt

	2003	2002
Revolving credit, average rate of 4.2% (average rate of 5% in 2002) (Note 12)	\$ 84,930	\$ 36,500
Term loan, average rate of 4.3% (average rate of 4.9% in 2002) (Note 12)	117,000	17,500
Movable and real estate mortgages, secured by assets having a depreciated cost of \$65,653 (\$70,736 as at December 29, 2002), rates varying from 5% to 8.65% (5.25% to 9% in 2002), maturing at various dates until 2017	45,990	48,311
Obligations under capital leases, rates varying from 5.32% to 9.05% (7.21% to 9.05% in 2002), maturing at various dates until 2010	6,630	2,520
Shares issued and fully paid		
965,805 class A preferred shares, Series 5 (2,215,423 shares in 2002); at the time of issuance, the Company agreed to redeem them over five years <sup>(a)</sup>	966	2,215
2,406 Class C preferred shares, Series 1 (3,094 shares in 2002); at the time of issuance, the Company agreed to redeem them over five years <sup>(b)</sup>	2,406	3,094
9,000,000 Class D preferred shares (10,000,000 shares in 2002) <sup>(c)</sup>	9,000	10,000
	<b>266,922</b>	<b>120,140</b>
Instalments due within one year	102,997	20,803
	<b>\$ 163,925</b>	<b>\$ 99,337</b>

<sup>(a)</sup> During the year, the Company redeemed 1,249,618 shares (1,869,628 shares in 2002) for a cash consideration of \$1,250 (\$1,870 in 2002).

<sup>(b)</sup> During the year, the Company redeemed 688 shares (326 shares in 2002) for a cash consideration of \$688 (\$326 in 2002).

<sup>(c)</sup> During the year, the Company redeemed 1,000,000 shares for a cash consideration of \$1,000.

Dividends affecting earnings represent \$550 (\$611 in 2002).

The instalments on long-term debt for the next years are as follows:

	Obligations under capital leases	Other long-term loans
2004	\$ 3,083	\$ 100,353
2005	2,461	20,471
2006	1,409	15,163
2007	390	4,657
2008	35	4,440
2009 and subsequent years	35	115,208
Total minimum lease payments	7,413	
Financial expense included in minimum lease payments	783	
	<b>\$ 6,630</b>	

## 14. Capital stock

In November 2002, the Company undertook a capital reorganization and made the following changes:

- The Company split the class A, C, D and E common shares on a four-for-one basis;
- The outstanding voting and participating class C, D and E common shares were converted into an equivalent number of class A common shares. Following the exchange, these classes of shares were cancelled;
- The class D preferred shares no longer have the right of conversion into common shares;
- The class E preferred shares were cancelled;
- The class A common shares were redesignated as common shares.

### Authorized

Unlimited number of shares

Common shares

Class A preferred shares, issuable in series

Series 5, non-cumulative dividend equal to 70% of prime rate, redeemable by the Company at their issuance price (Note 13)

Class B preferred shares, 6% non-cumulative dividend, redeemable at their par value of \$1 each

Class C preferred shares, issuable in series

Series 1, non-cumulative dividend equal to 70% of prime rate, redeemable by the Company at their par value of \$1,000 each (Note 13)

Class D preferred shares, 4% cumulative dividend, redeemable by the Company at their issue price. Beginning in 2003, these shares are redeemable at their issue price over a maximum period of ten years on the basis of 10% per year (Note 13)

### Issued and fully paid:

The following table presents changes in the number of outstanding common shares and their aggregate stated value from December 31, 2001 to December 28, 2003.

	<b>2003</b>	
	Number of shares	Amount
<b>Balance, beginning of year</b>	47,555,080	\$ 249,415
Issuance in exchange for common share subscription deposits	82,443	1,189
Issuance in exchange for cash	9,086,970	150,821
<b>Balance, end of year</b>	56,724,493	401,425
Deposits on common share subscriptions <sup>(a)</sup>		1,957
		<b>\$ 403,382</b>

	<b>2002</b>	
	Number of shares	Amount
<b>Balance, beginning of year</b>	22,799,844	\$ 20,799
Issuance in exchange for common share subscription deposits	207,840	1,142
Issuance in exchange for cash	10,962,824	147,911
Purchase for cash	(123,996)	(120)
Purchase in exchange for Class C preferred shares, Series 1	(328,376)	(317)
Conversion of Class C, D and E shares	14,036,944	80,000
<b>Balance, end of year</b>	47,555,080	249,415
Deposits on common share subscriptions <sup>(a)</sup>		1,252
		<b>\$ 250,667</b>

<sup>(a)</sup> Deposits on common share subscriptions represent amounts received during the year from affiliated and franchised merchants in accordance with commercial agreements. These deposits are exchanged for common shares on an annual basis.

In 2002, upon the redemption of common shares, a \$1,983 premium was paid and deducted from retained earnings.

### Stock-based compensation plan of May 1, 2002

The Company adopted a stock option purchase plan for designated senior executives, which was approved by the shareholders on May 1, 2002.

A total of 1,460,000 options were granted at that date. Options granted under the plan may be exercised since the Company made a public share offering on November 5, 2002. The Company can grant options for a maximum of 1,870,000 common shares. As at December 28, 2003, the 1,460,000 options granted have an exercise price of \$6.94 and expire on December 31, 2012.

Of this number, 140,000 options were exercised during the year.

The fair value of each option granted was estimated at the grant date using the Black-Scholes option-pricing model. Calculations were based upon a market price of \$6.94, an expected volatility of 30%, a risk-free interest rate of 4.92%, an expected life of four years and a 0% expected dividend. The theoretical fair value of options granted is \$2.19 per option according to this method.

No compensation cost was expensed with respect to this plan for the year ended December 28, 2003.



## 14. Capital stock (continued)

### Stock-based compensation plan of October 24, 2002

On October 24, 2002, the Board of Directors approved another stock-based compensation plan for designated senior executives of the Company and for certain unrelated outside directors. The total number of common shares which may be issued pursuant to the plan will not exceed 10% of the common shares issued and outstanding less the number of shares subject to options granted under a previous stock option plan. These options become vested at 25% per year, if the market price of the common share has traded, for at least 20 consecutive trading days during the twelve-month period preceding the grant anniversary date, at a price equal to or higher than the grant price plus a premium of 8% compounded annually.

On December 16, 2003, 274,100 options were granted at an exercise price of \$28.57. These options expire on December 16, 2013.

The fair value of each option granted was estimated at the grant date using the Black-Scholes option-pricing model. Calculations were based upon a market price of \$28.57, an expected volatility of 28%, a risk-free interest rate of 4.06%, an expected life of six years and a 0% expected dividend. The theoretical fair value of options granted is \$10.27 per option according to this method.

Compensation cost expensed with respect to this plan was \$49 for the year ended December 28, 2003.

A summary of the situation as at December 28, 2003, and December 29, 2002, of the Company's stock option plans and the changes that occurred during the years then ended are presented below:

			2003
			Weighted average exercise price
	Options		
Balance, beginning of year	1,460,000	\$	6.94
Granted	274,100		28.57
Exercised	(140,000)		6.94
Balance, end of year	1,594,100		10.66
Options exercisable, end of year	1,320,000		6.94

			2002
			Weighted average exercise price
	Options		
Balance, beginning of year			
Granted	1,460,000	\$	6.94
Exercised			
Balance, end of year	1,460,000		6.94
Options exercisable, end of year	1,460,000		6.94

## 15. Guarantees

In the normal course of business, the Company reaches agreements that could meet the definition of "guarantees" in AcG-14:

The Company guarantees bank loans and mortgages for certain customers to an amount of \$12,557. The terms of these loans extend until 2014 and the net carrying amount of the assets held as security, which mainly include land and buildings, is \$21,563.

Pursuant to the terms of inventory repurchase agreements, the Company is committed towards financial institutions to buy back the inventory of certain customers at a cost ranging from 50% to 90% of the cost of the inventories to a maximum of \$26,700. In the event of recourse, this inventory would be sold in the normal course of the Company's operations. These agreements have undetermined periods.

In the opinion of management, the likelihood that significant payments would be incurred as a result of these commitments is low.

## 16. Financial instruments

The following methods and assumptions were used to determine the estimated fair value of each class of primary financial instruments:

- The fair value of cash, accounts receivable, outstanding cheques, bank loans and accounts payable and accrued liabilities is comparable to their carrying amounts, given the short maturity periods;
- The fair value of advances and loans, substantially all of which have been granted to dealer-owners, has not been determined because such transactions have been conducted to maintain or to develop favourable trade relationships and do not necessarily reflect terms and conditions, which would have been negotiated with arm's length parties. Moreover, the Company holds sureties on certain investments which provide it with potential recourse regarding the operations of the dealer-owners in question;
- The fair value of long-term debt, except for preferred shares, is determined on the discounted value of future contractual cash flows using interest rates representing those which the Company could currently use for loans with similar conditions and maturity dates. The fair value of long-term debt approximates the carrying amount;
- The fair value of class A preferred shares, Series 5, class C preferred shares, Series 1, and class D preferred shares presented in the long-term debt, is equivalent to their redemption value.

The Company has interest rate swaps where the average rate is set at 4%, for a total value of \$100,000. The maturing dates are in October and November 2004. The fair value of interest rate swaps, as established by the issuing financial institutions based on quoted market prices at the balance sheet date for similar instruments, is (\$1,384) in 2003 and was (\$2,133) in 2002. Since the public offering on November 5, 2002, the Company considers that these interest rate swaps are no longer being used for hedging purposes and, accordingly, recognizes these swaps at fair value. The resulting gains and losses are recorded in earnings since that date.

## 17. Employee future benefits

As at December 28, 2003, the Company has six defined contribution pension plans (seven in 2002) and five defined benefit pension plans (four in 2002).

Following the harmonization of the Company's pension plans, two of the defined contribution plans were terminated at the beginning of 2003. Moreover, on January 1, 2003, two defined benefit pension plans were converted into defined contribution pension plans. The Company will continue to assume the accrued benefit obligations at the time of plan conversion, which did not result in a gain or loss for the Company.

The total expense for defined contribution pension plans is \$4,233 in 2003 (\$1,633 in 2002).

Combined information relating to the defined benefit pension plans is as follows:

### 2003 — 2002

#### Accrued benefit obligation

Balance, beginning of year	\$ 27,386	\$ 22,743
Current service cost	321	3,500
Interest cost	1,570	1,906
Benefits paid	(976)	(600)
Actuarial loss (gain)	1,478	(163)
Balance, end of year	29,779	27,386

#### Plan assets

Fair value, beginning of year	23,762	21,422
Actual return	653	(725)
Employer contributions	1,219	3,665
Benefits paid	(976)	(600)
Fair value, end of year	24,658	23,762
Funded status-deficit	5,121	3,624
Unamortized cost of past services	(78)	(92)
Unamortized net actuarial loss	(2,197)	(73)
Unamortized transitional obligation	(255)	(297)
Accrued benefit liability	\$ 2,591	\$ 3,162

The net pension expense for defined benefit pension plans is as follows:

	2003	2002
Current service cost	\$ 300	\$ 3,500
Interest cost	1,570	1,906
Expected return on plan assets	(1,414)	(1,300)
Amortization of past service cost	14	14
Amortization of net actuarial loss (gain)	115	(9)
Amortization of transitional obligation	42	42
Net pension expense	\$ 627	\$ 4,153

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations for the defined benefit plans are as follows:

### 2003 — 2002

	2003	2002
	%	%
Discount rate	6.0 to 6.5	6.25 to 6.75
Expected long-term rate of return on plan assets	7.0	7.0
Rate of compensation increase	3.0 to 5.5	3.0 to 5.5



## 18. Commitments

The Company has entered into lease agreements expiring until 2019 which call for lease payments of \$69,246 for the rental of automotive equipment, computer equipment, distribution equipment, and the building housing the head office and the distribution centre in Quebec.

The Company has also entered into lease agreements expiring until 2024 for corporate store space for minimum lease payments of \$611,174.

As part of the development of big-box stores with dealer-owners, the Company is initially involved as a primary tenant and then signs a subleasing agreement with the dealer-owners. In this respect, the Company is committed under agreements expiring until 2023 which call for minimum lease payments of \$142,380 for the rental of premises and land on which the Company erected a building. In consideration therefore, the Company has signed subleasing agreements totalling \$137,374.

Minimum lease payments (minimum amounts receivable) under lease agreements for the next five years are \$69,286 (\$9,286) in 2004, \$67,103 (\$9,352) in 2005, \$63,057 (\$9,430) in 2006, \$55,890 (\$9,498) in 2007 and \$51,125 (\$9,443) in 2008.

As at December 28, 2003, the Company entered into an advertising agreement to pay \$30,000 over a four-year period from January 1, 2004, to December 31, 2007.

## 19. Contingencies

The Company has instituted proceedings against a third party for failure to comply with a contract for the acquisition of land. The third party responded to the Company's claim with a counterclaim for \$20,000. In the opinion of management, this counterclaim is unfounded.

Moreover, other lawsuits have been filed against the Company totalling \$47,338 relating to various claims, the outcome of which cannot currently be determined. The Company's insurers have taken up the Company's defense in these matters for an amount of \$9,370. In addition, \$30,457 assumed at the time of the acquisition of Réno-Dépôt will be repaid by the vendor, in accordance with the share purchase agreement, in the event of an unfavourable ruling. Management did not deem it necessary to account for an allowance in this regard.

## 20. Segmented information

The Company has two reportable segments: distribution and corporate and franchised stores. The distribution segment relates to the supply activities to affiliated, franchised and corporate stores. The corporate and franchised stores segment relates to the retail operations of corporate stores and the Company's share of the retail operations of the franchised stores in which the Company has an interest.

The accounting policies that apply to the reportable segments are the same as those described in accounting policies. The Company evaluates performance according to the earnings before interest, depreciation and amortization, rent and income taxes, i.e. sales less chargeable expenses.

### 2003

	Distribution	Corporate and franchised stores	Total
Segment net sales	\$1,525,315	\$1,766,262	\$3,291,577
Intersegment net sales and royalties	(571,589)	(9,720)	(581,309)
Net sales	953,726	1,756,542	2,710,268
Earnings before interest, depreciation and amortization, rent and income taxes	53,971	180,177	234,148
Earnings before interest, depreciation and amortization and income taxes	41,871	133,192	175,063
Total assets	230,887	1,031,135	1,262,022
Acquisition of fixed assets and goodwill	29,871	183,450	213,321

### 2002

	Distribution	Corporate and franchised stores	Total
Segment net sales	\$1,413,549	\$1,395,030	\$2,808,579
Intersegment net sales and royalties	(467,816)	(8,644)	(476,460)
Net sales	945,733	1,386,386	2,332,119
Earnings before interest, depreciation and amortization, rent and income taxes	42,728	138,093	180,821
Earnings before interest, depreciation and amortization and income taxes	29,545	99,239	128,784
Total assets	152,705	613,729	766,434
Acquisition of fixed assets	9,090	26,218	35,308



## 21. Earnings per share

The following table presents a reconciliation of earnings per share and diluted earnings per share:

**2003**

	Earnings	Weighted average number of shares (in thousands)	EPS
Earnings per share:			
Net earnings	\$ 77,947	53,114.7	\$ 1.47
Diluted earnings per share:			
Effect of dilutive securities			
Impact of exercising stock options		849.7	
Net earnings available for common shareholders	\$ 77,947	53,964.4	\$ 1.44

**2002**

	Earnings	Weighted average number of shares (in thousands)	EPS
Earnings per share:			
Net earnings	\$ 43,114	38,511.3	\$ 1.12
Diluted earnings per share:			
Effect of dilutive securities			
Impact of converting Class D preferred shares <sup>(1)</sup>		1,422.9	
Impact of exercising stock options		110.0	
Net earnings available for common shareholders	\$ 43,114	40,044.2	\$ 1.08

<sup>(1)</sup> Since November 5, 2002, these preferred shares no longer have their right of conversion into common shares and will no longer be included in this calculation as they are no longer dilutive.



## Officers

### Robert Dutton

President and Chief Executive Officer

### Claude Bernier

Executive Vice-President, Traditional and Specialized Stores

### Pierre Dandoy

Executive Vice-President, Big-Box Stores

### Marc Dufresne

Executive Vice-President, Purchasing and Logistics

### Normand Dumont

Senior Vice-President, Merchandising

### Jean Émond

Senior Vice-President, People and Culture

### Claude Guévin

Executive Vice-President and Chief Financial Officer

## Key Dates

Fiscal year end: December 26, 2004

Release of Quarterly Reports:

- Q1: May 18, 2004
- Q2: August 11, 2004
- Q3: November 10, 2004

Annual General Meeting:

May 18, 2004 at 11:00 a.m. (Eastern Time)

Ritz-Carlton Hotel  
1228 Sherbrooke West  
Montreal QC

## Transfer agent

National Bank Trust  
1100 University Street  
9th Floor  
Montreal QC H3B 2G7  
Phone (514) 871-7171  
1-800-341-1419

## Bankers

Bank of Montreal  
Bank of Nova Scotia  
Caisse Centrale Desjardins  
National Bank of Canada  
Royal Bank of Canada

## Auditors

Grant Thornton  
General Partnership  
Chartered Accountants

RONA Inc.

For information:

France Charlebois, Corporate Secretary  
and General Counsel  
Phone (514) 599-5155  
chaf@rona.ca

Investor Relations

Sylvain Morissette, Director of Communications  
Phone (514) 599-5123  
mors@rona.ca

## RONA Support Centres

Head Office and Quebec-  
Maritimes Support Centre:  
220 chemin du Tremblay  
Boucherville QC J4B 8H7  
Phone (514) 599-5100

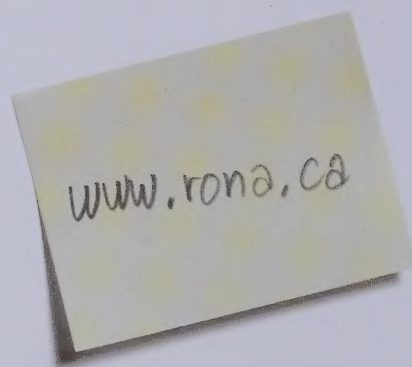
Ontario Support Centre:  
1170 Martin Grove  
Etobicoke ON M9W 4X1  
Phone (416) 241-8844

Western Provinces Support Centre  
19550 – 92nd Avenue  
Surrey BC V4N 4G7  
Phone (604) 882-6200

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**RONA**

RONA Inc.  
220 chemin du Tremblay  
Boucherville QC Canada J4B 8H7  
Phone (514) 599-5100  
Fax (514) 599-5110  
[www.rona.ca](http://www.rona.ca)